The MAGAZINE of WALL STREET
For a Nation of Intelligent Investors

Vol. 25. DECEMBER 13, 1919. No. 3

THE OUTLOOK

GOOD resistance against news which would ordinarily be accounted depressing has been the feature of recent stock markets. Bonds, on the other hand, have been unexpectedly weak. While this is partly due to year-end selling by holders who wish to record losses for income tax purposes, that cannot be accepted as completely covering the case.

Scarcity of capital is the more fundamental cause. The demands of the Government upon the capital market are by no means at an end. Our large exports of merchandise require the constant extension of credit. Issues of domestic securities have been large and at rates of yield which attract investment capital away from the older and more seasoned bonds. And the public, instead of showing a disposition to save, seems to have lost its sense of proportion in its expenditures for luxuries. In fact, the luxuries of before-the-war days are now looked upon by many as necessities.

The result is a level of prices for bonds and good preferred stocks which offers wonderful bargains to the genuine investor, who is considering permanent yield rather than temporary fluctuations. Many investors are making the mistake of trying to "buy at the bottom" or are entrusting their funds to more speculative issues.

A further sustained advance in commodity prices, if that should come, would indeed be likely to cause some further recessions in bond prices, despite their present low level; but such a rise in commodity prices is improbable. It could not be maintained without a further wide expansion of credit, which the Federal Reserve Board shows no intention of permitting. Temporary advances are likely enough, but we believe they should be looked upon rather as minor fluctuations at a high level than as indications of any broad tendency.

This is the golden age for the investor for income. Similar opportunities will not come again in the lifetime of the present generation.

* * *

Sensational Weakness of Exchange

AT $3.84 exchange on London was 21% below normal, and the French and Italian exchanges have likewise fallen to new low levels. As for the German mark, it is now worth about 2 cents in New York, but this measures the value of German paper money rather than any real foreign trade relationship.

The same, however, cannot properly be said of the pound sterling. It is true that new gold arriving from South Africa has recently been selling at 21% premium in English currency; but that is in itself a reflection of the foreign exchange position, and can hardly be regarded as indicating the depreciation of English money. No one, probably, doubts that the pound will return to normal some day. The only difference of opinion would be as to the time required.

Nevertheless, if we base our calculations on commodity prices, we find that English money will not buy as much in England as American money will buy in the United States. The average of English commodity prices is now 274% of that prevailing just before the war, while the corresponding figure for the United States is 231%. This difference just about corresponds to the present premium on the dollar in England. It is an interesting example of economic adjustment.

* * *

Extent of November Decline

THE very sharp break in November resulted in eliminating speculative inflation from almost all classes of stocks. The movement of averages for different groups was as follows:

	Aug. Low	High Since	Nov. Low	Loss in Points
25 rails	56.8	62.4	55.5	6.9
25 industrials	101.4	138.1	112.4	25.7
5 steels	87.6	134.1	103.3	30.8
5 coppers	61.6	68.0	52.1	15.9
4 equipments	94.1	128.6	103.4	25.2
5 motors	85.5	146.2	103.6	42.6
5 oils	124.0	179.4	139.7	39.7
3 tobaccos	103.7	132.7	102.6	30.1

The groups which suffered least were quite naturally the rails and coppers, which had had the smallest advances. The rails, especially, stood up against declines elsewhere with noticeable firmness, indicating that investors in general have confidence that, whatever the outcome of legislative action, railway stocks will prove to be worth at least their current prices.

The fall in the coppers was primarily due to the continued delay in ratification of the peace treaty, which has interfered with the financing of sales of copper to Europe. The domestic demand for copper has also been limited by lack of demand for use in new constructive enterprises. While stocks of copper are liberal, foreign supplies are not large, and a better demand in 1920 seems assured. In the meantime the prices of copper stocks are undoubtedly below intrinsic values.

The decline in the steels amounted to 60% of their advance since August, which compares with 70% for the 25 industrials taken together. The check to steel production because of the strike and the coal shortage was of course an important factor in their weakness.

Financing Foreign Trade

WHILE the failure to ratify the peace treaty has been one element in delaying arrangements for the granting of foreign credits to help our export trade, a still more important obstacle has been the unwillingness of American investors to buy foreign securities. It is understood that the last British loan placed here still remains to a great extent in the hands of the banks, in spite of the attractive profit which could be realized when exchange returns to normal. The immediate yield on the British notes, however, was only a little over 6%, which can now easily be obtained on American securities of high grade.

The Edge Bill, now about to become law, will authorize the Federal incorporation of institutions to be principally engaged in the financing of exports, and National Banks may subscribe to the capital of these institutions up to 5% of their own capital and surplus. If the banks enter into the plan heartily, it is evident that large foreign credits can be extended. And if the public also takes hold freely by purchasing securities created under the Edge Bill, these institutions will become an important factor in the activity of our trade.

The War Finance Corporation, also, has the authority to make loans up to $1,000,000,000 for the extension of foreign trade credits. The loans may be made until one year after the end of the war as proclaimed by the President, and may run five years. So far very few such loans have been extended.

Moreover, there are already in existence eight private banking corporations organized to finance foreign trade. It is supposed that they are awaiting the peace treaty before taking any aggressive action.

Another method of financing which has already come into play to a considerable degree is the direct granting of long-term credits by the corporations which sell the merchandise to the foreigner. Many companies which are unwilling to grant such credits for the entire value of the goods sold would nevertheless be quite ready to accept a part of their payment in credit. It is understood that the Government has been sounding prominent manufacturers as to what they could do in this line and has received encouraging replies.

It will be seen that our resources for the financing of exports are by no means so limited as might be imagined from the hasty reading of current financial comment. We believe that a large export trade will be done in 1920 on the basis of long-term, well-secured credits. It is hardly to be expected that the record exports of 1919 can be kept up, but our export trade should be large enough to be an important factor in the maintenance of prosperity.

* * *

Labor Conditions

WHILE the production of coal is still below 50% of normal, it is increasing, and the gradual resumption of work by the miners is expected. There will, however, be an industrial coal shortage until spring, as it will be difficult to make up the ground lost by prolonging idleness. This will tend to check the production of steel, and the prospect is for a demand in excess of supply and for higher prices for steel next year.

There will be labor shortage throughout 1920. For four years emigration has about equalled immigration and at present is somewhat exceeding it. American industry has always depended upon a constant inflow on foreign labor, and the cutting off of the supply means labor scarcity. Average working hours also are shorter than before the war, and the efficiency of labor is less because of the greater independence of workmen. Many workmen will not work as hard when they know that their places can only be filled with great difficulty.

On the other hand, labor will be prosperous and wages will be spent freely, which means that nearly all classes of society will also be prosperous.

* * *

Money Conditions

LAST week's Federal Bank statement shows a gratifying reduction in war paper held by the banks. The efforts of the Federal Board are thus beginning to bear fruit and it is to be hoped and expected that further reductions will follow. The rise in the per cent of reserves from 45½% to 46½% is also encouraging.

As predicted in this publication, the reduction of war paper has been accompanied by an increase in commercial discounts and we expect this to be a steady tendency during 1920. "Deflation" is out of the question at present. What we must expect is a shifting of credit from dead war paper into live commercial bills, thus gradually permitting expansion of trade without credit stringency.

The commercial paper rate is now about ¼% higher at 5¾% for prime bills. Money in Wall Street is lending at more normal rates than last month, but time money still commands 7½%. Easier conditions are to be expected after January 1.

* * *

Business and Market Prospect

WE see no reason to expect that business liquidation will follow in the train of the recent deflation of Wall Street. The demand for almost all kinds of goods for immediate consumption exceeds the supply and business credit is easily obtainable at fair rates. Failures are still very small. In construction lines, industry lags. It is the normal succession of events that the demand for consumption goods leads and that for constructive materials follows. We expect the same program in this instance. We believe the steel and copper industries will show greater activity next year and that building construction will continue to increase.

It is to be expected that continued good export business and active domestic trade will find reflection in stock exchange prices. Loans on Stock Exchange collateral at New York are now about 75% of what they were at the recent high prices, showing the extent to which stocks have become lodged in the hands of investors who are in a position to keep them. Weak holders have been pretty well eliminated and there has been a marked increase in the short interest, which is now about normal.

A period of comparaive inactivity in stocks would not be surprising, but we are confident that the outcome will be an upward trend. The November decline, sharp though it was, did not have the ear-marks of the beginning of a bear market. Wall Street, volatile as usual, has dropped from the heights of enthusiasm into the depths of despair. The new year should bring a much more cheerful state of mind.

Tuesday, Dec. 9, 1919.

George W. Perkins

The Story of How the Big Financier Won Success—His Views on Business

Interviewed by FRANCIS J. OPPENHEIMER

WALL STREET does not always take a big financier's statements at their par value, and in the case of George Walbridge Perkins it is probably right this time. Mr. Perkins some years ago announced his "retirement" from active affairs, the humor of which will become apparent to those who study the tabulation of his activities, and know the steel-insurance-banking magnate's interest in matters humanitarian, social and communal. If "retirement" means that Mr. Perkins has given up *making* money, we believe it unreservedly; but making is not synonymous with earning. It is doubtful if the subject of our interview could help *earning* money or money's worth this side of the Great Beyond.

No golden spoon was the heritage of young George Walbridge Perkins, who at the age of zero introduced himself to a cold, bleak world, choosing the Windy City and January 31, 1862, as the place and date of his debut.

"I wish you would tell the truth about me," Mr. Perkins cautioned at our interview, and remembering some of his paradoxical confessions, we promised—but with mental reservations. It might be better to let Mr. Perkins tell some of the truth about himself in his own words.

"My first job after a public school education was sorting out oranges from lemons in the basement of a Chicago produce house, a job (so I've heard recently) that I've been at ever since. I was not sent to school until I was ten, due to original theories on education held by my father, a practical shipping man. I had no 'childhood days' as is commonly understood and did not miss them. Work and pleasure have always been the same thing to me, and from the earliest years I can remember I worked hard—and wanted to work still harder.

"After 'retiring' from the produce business, I gave up my job for a 'position'—that of office boy in the Chicago Branch of the New York Life Insurance Company at a salary of $25 a month. In good time I was promoted to bookkeeper, cashier, inspector and Western Superintendent of Agencies."

Perkins Had No Pull

We elicited the fact that young Perkins had no special "pull' with the big insurance company or the insurance world. His climb is a record of hard work, energy and application, coupled with a love for his work and a desire to learn all, and even more, about his job (I mean position). The coming Perkins supplied his own steam pressure and apparently worked it with a full load all the time, if we may judge by the fondness with which he relates his insurance experiences, as an alumnus speaks of his alma mater.

Perhaps Mr. Perkins' fondness for the insurance business is also coupled with the memory of the great opportunity that came to him. It was in the office of the New York Life that he met J. P. Morgan, and more important still met his greater self. Thus did fate intervene to take him out of the ranks of provincialism.

It is possibly wrong to blame fate or accident for the meeting between Perkins and the elder Morgan. Rather it was so designed along the Perkins-pattern of hard work, lack of complacency, as well as progressiveness (sometimes called "push"). At the age of twenty-nine, the young insurance man thoroughly familiar with every angle of his business was managing a struggling insurance business, which although showing a surprising growth under his management did not, apparently, measure up to the Perkins idea of opportunity. So he came East after repeated solicitations to change his field. At thirty-six he was occupying the vice-presidential chair, and a couple of years later that of chairman of the finance committee of the New York Life, a post that he seemed to get, sooner or later, with every organization with which he became identified.

> *"Regulate Big Business before we strangle it. Our laws should provide publicity for all corporations and make it possible for stockholders to know what is being done with their money. Competition is too destructive to be tolerated. Co-operation is better for Capital, Labor and the ultimate Consumer."—George Walbridge Perkins.*

Met J. P. Morgan

At this point, Perkins and Morgan met. The appraising eye of the world-leader in banking, steel and big business had been looking over the innovations wrought in the New York Life by this young insurance Lochinvar who came out of the middle west, who had floated the first Russian and German loans in this country and who had "swapped punches" with Governor Theodore Roosevelt on the subject of overcapitalization. Here was the man that Morgan needed to stand the wobbly billion dollar and at that time super-hydrated U. S. Steel Corporation on its feet. Here also was the man *who could assume the responsibility,* and relieve the elder Morgan from the worries of teaching that great steel elephant the way it should go. Carnegie and his older steel associates were out. New young and more vigorous blood was needed and Morgan saw in Perkins the kind he needed for the transfusion.

How George Walbridge Perkins made a success of the Steel Corporation is American history. How he did it was a continuation of the same recipes that brought him success in his earlier ventures. There were no secrets in his formula. Primarily they were: cards upward—no jokers in the pack or aces up your sleeve. These are not Mr. Perkins' words, but his methods. More than this he was a great adherent of the giving to stockholders the same square deal as he always gave his agents in the insurance business. He was the first industrial leader to recognize the right of labor to share the ripe fruit of their work with their "superiors" (note how the orange and lemon experience influenced his maturer reasoning). His inauguration of the profit-sharing and copartnership plan was an evolution, an epoch in industrialism. At the moment I report this interview, the bankers of the Steel Corporation are probably still buying their annual apportionment of stock that goes to employees at a low price and easy terms. Let us quote Mr. Perkins himself:

"Competition is too destructive, too ruinous to be tolerated any longer. Cooperation is better for Capital, better for Labor, and also better for the ultimate Consumer. And in its healthiest form it can be practised by great corporations much more effectively than by small companies. We have the choice of three methods: first, cooperation through the medium of corporations with Federal regulation and control; second, Government ownership and management; third, socialism. Under the method of large corporations regulated and supervised by Federal authority, with widely distributed ownership and with Labor interested in the business, we have all the safeguards and advantages that the most ardent advocate of Governmental ownership could desire. In broadly distributed ownership among the Public and Labor, we distribute profits to the people and retain for the benefit of the business that one great necessary factor which has done so much for American industry, namely: individual initiative.

"I've always held that our national laws should provide complete publicity for all corporations. This would make it possible for stockholders to know what was being done with their money. And, Government authorities would also know what was being done. This would also keep Labor from being in the dark. The strong Light of Publicity constantly shines on our Chief Executive and it is powerful enough to protect the people against any serious abuse of the great powers conferred upon him. When we come to

GEORGE W. PERKINS

He began life as an office boy with the New York Life Insurance Company and "retired" nine years ago, with about fifty millions. This article tells of his novel activities since his "retirement."

adopt the same methods for big business, the results, I believe, will be equally satisfactory."

Views of Big Business

On the subject of Big Business, with which Mr. Perkins has been identified more markedly since 1910 when he virtually became a sidepartner of the elder Morgan, we find some very emphatic, if not positive views expressed:

"Why not try to regulate 'Big Business' before we strangulate it? Our National Government first undertook the supervision of our States, then it undertook the supervision of Health, Schools, and then our banks. Now it is running the railroads. We have a choice of doing so, or smashing it to pieces."

The years that followed Mr. Perkins' association with the Morgan house, his entry as a partner, his organization of the great International Harvester Corporation and other great enterprises seemed natural enough. He still holds his favorite position of Chairman of the Finance Committee of the Harvester Corporation, and although voluntarily "out" of J. P. Morgan & Co. and nominally "retired" from business he is still at his desk in the big banking house during office hours every day of the week and he is working.

Mr. Perkins denies that he is a financier in spite of his record with the New York Life, U. S. Steel Corporation and International Harvester. He also alleges that he is not a philanthropist although he raised princely sums for the Y.M.C.A. to carry on its oversea work during the war. We'll not contradict these statements, but give the facts and let it go at that. The question of politics did not come up at the interview, and it would be interesting to know whether Mr. Perkins considers himself a politician?

His deep interest "in the common people" is apparent from a list of his activities which we have tabulated. In this connection when he tied up with J. P. Morgan, Theodore Roosevelt, then Governor of New York, called him up one day to notify him that he had appointed him President of the Palisade Interstate Park Commission, the object of which was to save the picturesque Palisades and to make of it a permanent playground for the people of the States of New York and New Jersey. It was the same Roosevelt, by the way, who had said "great fortunes should be the servants and not the masters of those possessing them."

Mr. Perkins has never worked so hard as during this, his period of retirement at the age of fifty-seven. While the mouth is set in stern mold, as becomes one of the old brood of industrial giants, the eyes still twinkle. This son of the people, for the people, who did not know the meaning of a playground as a boy, is the "Big Boss" of the Palisade Interstate Park. What is it? Ask any of the hundreds of thousands who enjoy its picturesque scenery and invigorating air each summer. Ask those to whom Bear Mountain is the earthly equivalent of Paradise. In these playgrounds for the people there are no "concessions," no grafting overseers and no commercialism. It belongs to the slum children and to all other people in fee perpetual. Fifty thousand of them were taken care of there last summer for vacation periods of eight days each in the forty-nine group camps scattered through the Palisades. Free boating was provided for almost four hundred thousand at Bear Mountain, to say nothing of the countless thousands who used the bathing beaches opposite congested Manhattan. The money spent by the Commission is not for reports, maps or salaries of figure-heads but on purchasing options on more land along the Palisades, land that would otherwise fall eventually to the rapacity of the quarrymen.

By a queer trick of fate, Perkins, whose childhood was deprived of all play, becomes the instrument through which the greatest people's playground in the world has come into being. He is building up a social monument that will be enjoyed by the masses long after his fame as banker to the defunct Bull Moose party will have been forgotten. Nowadays when Morgan or Mrs. Harriman or the Rockefellers get a telephone call from Perkins they know it is not about "business" as we understand it—although it is Perkins' business. It is invariably, as they know, about some new need, another angle, or a new twist to the needs of the people's playground. The elder Rockefeller has already contributed a million dollars to the enterprise, and the Harriman-Morgan bequests are of equal largesse.

Steel and milk, two of Mr. Perkins' favorite topics, when mentioned guardedly gave rise to some emphasis:

"Uncontrolled competition is the greatest menace to our financial life. Of the eight thousand national banks, privately owned and managed, there have been but a couple of failures." (Editor's note: there have been *no* failures in 1919.) "Big combinations reduce the cost of living by eliminating waste. It makes no difference whether it is steel or milk."

His views on milk come at an interesting period of record high prices for the lacteal product.

Telephone Created Trusts

"Do you not believe, Mr. Perkins that competition is the soul of trade?" our interrogator asked.

Mr. Perkins eyes snapped. We were stepping on a sore spot.

"Regulation is the great panacea for all evils, financial or industrial. The telephone, not the Sherman Law, nor even the tariff, is responsible tor the trusts." Of this Mr. Perkins is apparently convinced, and no caller escapes this, his favorite axiom: "An airship is an airship, but a telephone is the airship of the mind."

The cartoonists in the old Steel merger days used to be fond of picturing the subject of our story as a sort of milk-fed leader of the "plunderbund." One look at George Walbridge Perkins' proportions, his cool gaze, twinkling eyes and slender waistline gives them the lie. Attrition with men and things, up-hill and down-dale, has not hardened or softened him. Perkins at fifty-seven, in the pink of condition, is still a young man.

If there is any outstanding lesson to be derived from this sketch of our subject, it is but another phase of the proof along with the cases of Harriman, Carnegie and Frick that the "Wall Street game" does not necessarily harden or dehumanize anyone. Just as this truly great financier and philanthropist (I am aware this is a contradicton, and that I promised to speak the truth) gives his services unstintingly to the people, gratis, except for his enjoyment of the work, so has he given of himself unsparingly since his "retirement" to many other social welfare projects. Every day during the war he spent part of his time in the Y.M.C.A., and it is not to be supposed that during this trying period that his song was "as gay as the lark." On his shoulders rested the burden of raising the huge sums needed to carry on the work "over there."

Then too, when one recalls his work on the late Mayor Mitchel's Food Supply Committee, and Governor Whitman's Markets' Committee, George Walbridge Perkins seems to stand out in my mind preeminently as, what his friend Theodore Roosevelt might have described as "an eminently desirable citizen." We feel sure he will need no better eulogy.

The Business and Social Interests of George Walbridge Pernins

L. L. D., Wooster and University of Vermont.

Director International Mercantile Marine.

Retired partner J. P. Morgan & Co.

Chairman Finance Committee: International Harvester Corp.

Director Florida East Coast Railway.

Director Great American Insurance Company.

Director New York Life Insurance Company.

Director Alliance Insurance Company.

Trustee Vassar College.

Director Y. M. C. A.

President N.Y. Palisades Interstate Park Commission.

Committee: N. Y. Botanical Gardens.

Vice-President Park District Protective League.

Trustee N. Y. Scenic and Historic Preservation Society

Member Iron and Steel Institute.

Member American Federation of Arts.

Member Am. Society Jud. Settlement International Disputes.

America's Merchant Marine Policy

By U. S. SENATOR WESLEY L. JONES

AN adequate merchant marine, built in American shipyards by American labor, owned by American capital, operated and manned by American seamen, carrying American commerce to all ports of the world, and flying the American flag, has been my dream for many years, and it is my purpose to do whatever I can to obtain this great end, and I will support any measure and any policy that will give a reasonable assurance of accomplishing this great object.

We are the greatest exporting Nation in the world, and the second, if not the first, importing Nation, and we should be no more dependent upon foreign transportation to get our products to market than should any other Nation.

By the end of next year we will have, including our coastwise shipping, a merchant fleet of almost 18,000,000 gross tons, and about equal to that of the British Empire.

We do not desire, and it is not our purpose, to drive other nations off the sea, but we do want to do, and we ought to do, at least our proportionate part of our own and the world's carrying trade, so that our commerce shall have a fair chance in the world's markets, and that we may be hereafter fully prepared for any emergency that may confront us. In my judgment, our people are ready to do anything needed to bring this about.

Our ships have been built in a hurry. Many are not the best for our trade. We have too many of some kinds and none of others. The fleet should be properly balanced and then we should maintain it on a par with commercial growth and keep it up to the highest state of efficiency. If any nation seeks to drive us off the sea, we should meet such an attempt with all our resources. If our right to have and operate a merchant marine commensurate with our wealth, and power is admitted by other nations, it will be well for them and for us. The need of the British Empire of a great merchant marine is admitted by us; but it is not good that the world should depend upon one nation for its water transportation. The world's peace is not safe or assured under such condition.

SENATOR W. L. JONES

The Senator has introduced in the Upper House of Congress a measure for establishing an agency to build up our merchant marine.

Of the 12,000,000 tons of shipping for the foreign trade that will be under our flag by the close of next year, more than 8,000,000 will be owned by the Government and paid for by taxes from the people. What to do with it and how to use it is the problem that confronts us, and it should be solved as soon as possible.

We may differ about Government ownership, but that can be no issue here. The Government owns these ships, whether we will or no. They cannot be given away. The people will not stand for that. We must not allow private parties to take the cream of this shipping and let the Government hold the balance to dispose of at a great sacrifice. Grant that Government ownership should end as soon as may be; it must be brought about as early as possible without unnecessary sacrifice and just as a private individual would get rid of property he did not desire to keep but that he did not have to dispose of at a sacrifice.

Furthermore, the Government is interested in the future success of shipping and the maintenance of a permanent fleet. That object must be kept in view,

and in getting rid of Government ownership we must try not to sacrifice our property and must strive also to build up and put our shipping on a permanent basis. In fact, the ultimate purpose of our legislation should be the establishment has a plant for the building the merchant marine will be developed and maintained under private ownership and operation.

Private interest, incentive, and energy bring the greatest efficiency. Efficiency means success—its absence, failure—in business and enterprise. When any of these ships can be sold so as to promote the ultimate purpose they should be sold. If not sold, they should be operated privately when this can be arranged for on fair terms and in a way to promote the ultimate purpose.

No one can reasonably hope that private enterprise and capital, in the face of foreign competition and handicapped by our own inexperience, and lack of business connections and facilities, will be able to absorb and take over all this shipping in a short while and establish the routes we ought to have. To serve our present needs, establish and maintain new lines, and develop the new markets that we must have if our merchant marine is to be what it ought to be, additional ships of special type, size, and speed must be built. They will cost large sums of money.

Senator Wesley L. Jones of Washington State, Chairman of the important Committee on Commerce, to which will be referred all proposed shipping legislation, has for many years taken a deep interest in development of America's merchant marine. Senator Jones was born in 1863 and has been in Congress for twenty years, the first ten years of which he served in the House of Representatives. He was elected to the Senate in 1909, and has served continuously since then. He is considered an authority on maritime affairs, and is an aggressive member with large influence.

Some may be built by private capital, but in my judgment most of them will have to be built by the Government if we are to have them. They can be built without new appropriations and as a part of a policy that will not only cost the Government nothing, but will help repay what has already been spent.

Along with the ships we have we also have agencies to build the ships we need. It is economy to use them, even if the additional cost of a ship may be a little more—which I very much doubt. At Camden, N. J., for example, the Government has a plant for the building of the largest ships in the world with ways a thousand feet long. This plant has cost several millions of dollars, and for all practical purposes is a part of the New York Shipbuilding Co.'s yard. Unless private shipbuilding interests are ready to buy it and pay a fair price for it, the Government ought to keep it and through the New York Shipbuilding Co. construct the ships that it ought to have and for the construction of which there are probably no other existing facilities.

The situation that confronts us is about this: We are comparatively inexperienced in financing, building, and operating ships. We ought to have, for national safety and commercial success, at least 15,000,000 tons of shipping, to be maintained and increased as our trade grows, along with ample shipbuilding and repair yards. We will have this shipping by the close of 1920, with 8,000,000 tons or more of it owned by the Government. What shall we do to bring it ultimately into private hands, insure its maintenance and development to meet the needs of national safety and commerce, and at the same time return to the people the greatest part of their investment?

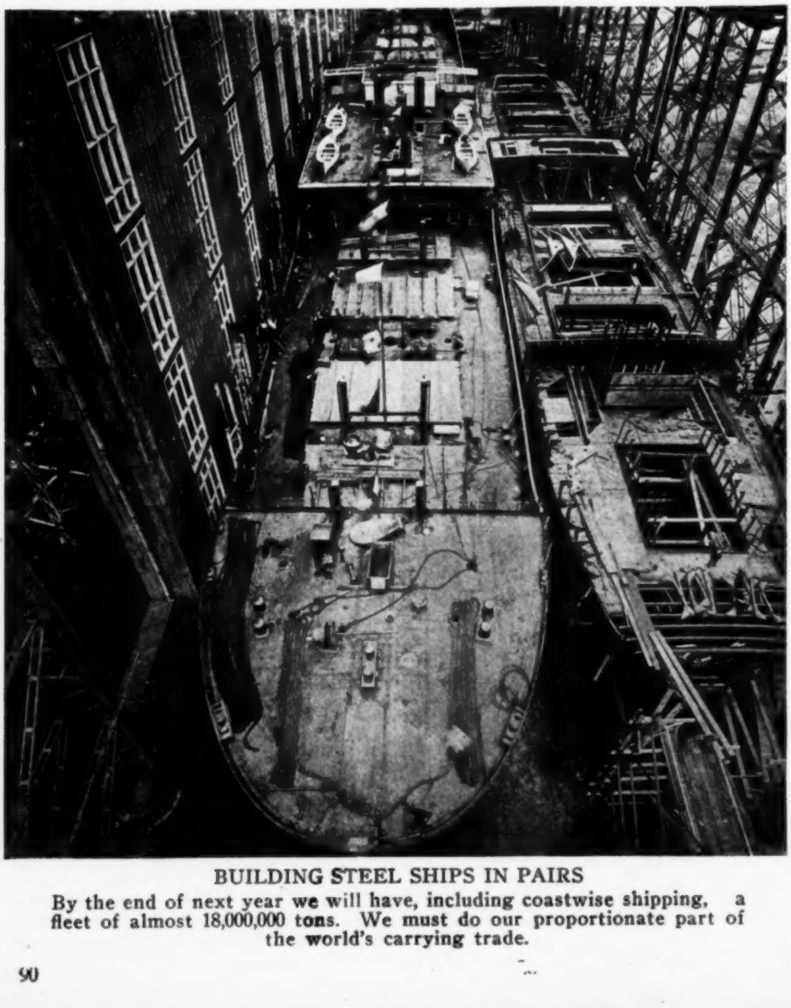
We now have the United States Shipping Board acting in a dual capacity. It was intended to be a great regulatory, governmental agency, and is in fact doing the work of a great corporation. It can not well serve both ends. I do not propose to destroy the Shipping Board. What I propose is to divorce it entirely from building, selling, or operating ships and allow it to do the things it was primarily created to do, and establish a corporation separate and independent of it to operate, maintain, and dispose of our ships in such a way as to give us an adequate merchant marine on a permanent basis.

We need an agency that can act promptly and do whatever the emergency or situation demands. The best governmental agencies of this war have been the corporations created to serve particular needs. They have done their work well and with profit to the Government, and have shown that corporate agencies can be used as effectively in governmental activities as in private enterprises.

I have provided in a bill I introduced in the Senate a definite, concrete plan for establishing an agency through which the upbuilding of our merchant marine and its operation can be conducted.

My bill creates a corporation entirely separate and distinct from the Shipping Board, with nine directors to be appointed by the President from the different sections of the country for a term of eight years. This corporation continues for 3 years unless otherwise provided by law, and has all the powers of a private corporation for the accomplishment of the purposes of its creation. If thirty years is too long it can be shortened. This is more a matter of detail. If ten years would give us plenty of time cut to ten years

It has no capital stock, but there is transferred to it all the ships of the United States acquired as a result of the war and all the ships, shipyards, property, and



BUILDING STEEL SHIPS IN PAIRS
By the end of next year we will have, including coastwise shipping, a fleet of almost 18,000,000 tons. We must do our proportionate part of the world's carrying trade.

assets of the United States Shipping Board and the United States Emergency Fleet Corporation, which shall constitute its capital. It is authorized to use this capital in any way that it deems best to accomplish the purposes of the act.

All the contracts and liabilities of the Shipping Board and the Emergency Fleet Corporation will be taken over by it. It is authorized and empowered "to construct, equip, repair, maintain, operate, sell, lease, charter, exchange, or otherwise dispose of vessels of the United States, and issue and deal in maritime securities, make contracts, acquire, hold, and dispose of such other property, both real and personal, as may be necessary and convenient for corporate purposes, and to establish and maintain, within, and without the United States, port, terminal, and warehouse facilities and coal or oil bunkers or stations for use in connection with our merchant marine, and to do any and all things deemed by it necessary to develop an adequate American merchant marine composed of ships of suitable types, speed," and so forth.

In brief it is proposed to place in the control of this corporation, whose directors are men of the highest standing and largest business experience, ships, shipyards, and assets which cost about $3,000,000,000, for the purpose of accomplishing a definite, declared object, and give them full authority to do with these assets a certain and definite thing. Our biggest men will welcome the opportunity to do this great thing. They can do it if it can be done, and I do not doubt that they will do it.

A MERCHANT MARINE AT LAST

This Panama Canal scene shows a ship flying the Stars and Stripes passing through the Gaillard cut. We nust now develop a policy for maintaining our new merchant marine.

The Influence of the Excess Profits Tax on Reconstruction

By ROY C. OSGOOD

VICE-PRESIDENT OF THE FIRST TRUST AND SAVINGS BANK OF CHICAGO

IT seems to be the opinion of economists that, whatever else is needed to assist in reducing the present economic situation to normal, there must be an increase in production and a decrease in costs. Many articles have been written around these two essentials but comparatively little attention has been paid to the influence of high taxes upon both of these economic factors.

Within the last few months students have begun to realize the strong influence of the fiscal policy of the Government during the war upon the present situation. Laying aside consideration of the direct borrowings of the Government, as a part of this fiscal policy it is intended here to deal briefly with the influence of taxation and particularly the influence of the excess profits tax law as it now stands.

Numerous Injustices

First there will be considered the influence of the excess profits tax upon production itself. The excess profits tax is based upon the assumption that all profits above a standard fixed by the law are profits in excess of normal and fails to recognize the influence upon profits exercised by individual energy, ability, character and business capacity.

While it is true that the war tax provisions of the law, effective only for the tax year 1918, recognized this influence to a certain extent, the effect of the flat rate exemption provisions is capable of being relieved only by appeal to those portions of the law permitting adjustment of hardships by comparison with other business enterprises of the same class. This appeal has of necessity been slow in operation and, so far as it concerns the needs of business under reconstruction, has been cumbersome and ineffective as a practical aid.

> *THE excess profits tax is in ct a most unscientific and inequitable form of commodity taxation. It results in the public paying more in the added cost of the article than the amount paid for taxes. It becomes a much larger consumption tax than any tax Congress would think of permitting as a direct levy upon necessities.*

The tax is based upon accidental methods of capitalization that existed before the war and upon artificial corporate adjustments effected since its enactment. Competitive businesses based on equal volumes and otherwise equal conditions have either been aided or handicapped by such artificialities.

The law imposes unjust discrimination between individual, partnership and corporate methods of conducting business, in some cases placing the individual and partnership methods in more advantageous positions than the corporate methods and in other cases reversing the situation. In some cases of moderate capital employed the owners of closely held corporations have found the differential against them and in favor of the individual or partnership competitor equal to five per cent on the employed capital.

The tax discriminates between business organizations in a manner dependent upon the form or time of their organization or the plan of their accounting. For instance, partners in large copartnerships are handicapped because of the form of their business undertaking.

The tax discriminates in favor of corporations founded and conducted by present owners as against corporations that have made recent acquisitions of going business organizations.

It discriminates against business enterprises conducted in corporate form and which on account of conservative methods of accounting have not in the past carried their accounts in such a manner as to capitalize the investment of earnings employed for development. Established concerns whose stock is not widely held and who have not sought to sell their securities to the public or to borrow extensively at the banks and for these reasons have had little or no interest in showing a favorable balance sheet, have been the losers by the operation of the law.

Well established business enterprises making good profits prior to the war are not so materially affected by the tax as new

ROY C. OSGOOD

Mr. Osgood is Vice-President of the First Trust and Savings Bank of Chicago; also Chairman of the taxation committee of the Investment Bankers' Association, and one of the vice-presidents of that organization.

enterprises. Corporations existing prior to the enactment of the law and having successfully watered capital, whose original values are hard to determine, are placed in a preferential position by the tax as compared with corporations that have followed conservative policies and whose original values are comparatively easy to establish.

The tax discriminates in favor of corporations financed by preferred stock as against corporations financed by borrowed capital.

These discriminations work out generally in favor of old and against new enterprise. Such discriminations bring about an inequality of expense burdens between competitive concerns that render exceedingly difficult the conduct of business in the present period of increasing costs and sharper competition.

If it be agreed that a decrease in the cost of production is one of the principal factors in the solution of the present economic disturbance, then the influence upon the increase in costs contributed by the excess profit tax must be carefully considered. Not only economists but legislators are beginning to pay more attention to the influence of this factor upon present high costs. In a recent investigation conducted in England it was reported that for two war years as against two pre-war years, taking increased costs at 100%, labor received 57%, the state through taxation 40% and capital 3%. So far as the writer knows no data have been assembled in this country for the purpose of showing whether or not taxes would form the same relative proportion of cost increase, but it is well recognized that our high taxes, and particularly the excess profits tax, form a dominant factor.

The normal direction of any business enterprise is toward the maintenance of a constant quantity of earnings. This is natural because it permits continuity of usual dividend payments and assures the creation of a normal surplus against contingencies thus establishing a margin for credit purposes and keeping up security value to permit borrowing without losses on account of abnormal discounts. To sustain such earnings under the excess profits tax law, taxes must be treated as expense. The analysis of the earnings reports of any industrial corporation sufficiently emphasizes the tax feature to show this. Taxes are added to costs.

A Tax on Commodities.

Increased costs result in increased commodity prices. *While the excess profits tax is apparently a direct tax on profits, in effect it is a most unscientific and inequitable form of commodity taxation.* The selling organization either adds the taxes to the selling price on the basis of previous experience in the operation of the law or it estimates the amount of probable taxes for the year that must be added to the selling price in order to maintain a normal rate of return to the owners of the capital.

On account of the necessarily complex nature of the law and the resulting uncertainty of the amount of tax, it is natural that in making such estimates the amount added to cost will be higher than the tax actually paid. *This results in the public paying more in the added cost of the article than the amount paid for taxes.* It follows that the tax becomes a much larger consumption tax than any tax Congress would think of permitting as a direct levy upon necessities.

The tax also operates in the direction of lessening effort to keep down the operating expenses of business. Before the era of high taxes an expense item was borne entirely by the owner of the capital and the increase of expense was watched by eyes of economy. During the period of the high tax the owner of the capital shares increased expense with the Government and feels he can afford to be more extravagant. This makes toward an increasing level of operating costs that have their necessary effect upon commodity prices and that cannot be reduced easily even when taxes are lowered.

During the war the needs of the nation for the purpose of prosecuting it were first and war production was the paramount business of the country. Now the needs of business reconstruction are paramount. Inequalities resulting from newly improvised methods of taxation were borne of necessity during the war period. Owners of capital placed patriotism first and profit making second.

Such inequalities and drags upon business enterprise must be rectified to meet reconstruction necessities. Even with the best talent that was so freely given both in and out of Congress for the purpose of framing a workable excess profits tax, it remains unscientific in principle and economically unsound. The continuance of this hampers increased production and militates against lower costs. Business cannot accept the hazards of needed expansion and at the same time pay the government so large a proportion of their profits in excess profits taxes.

Capital is more difficult to obtain in new enterprises facing the adverse conditions created by this tax. A constructive business policy cannot successfully exist under the complexities and uncertainties of the law. The Internal Revenue Bureau as it is conducted at the present time is undoubtedly operating at the highest point of efficiency reached since the first income tax law was passed. It maintains a patience in considering the innumerable special cases of hardship occasioned by the excess profits tax law that will ruin Job as an historical example. It is overworked and undermanned, but is doing the best it can. Even with the most intensive effort on its part to eliminate delay, many business enterprises do not know today whether their taxes for 1918 have been fully paid and the greater part of this hampering uncertainty is due to the difficulties of the excess profits tax.

If a greater quantity of production and if lower costs are to be obtained in the near future, a repeal of the excess profits tax must take place as a large measure of assistance.

The Chancellor of the English Exchequer stated not long ago that he con-

siders the English excess profits tax a deterrent to the industry and development of his country. The Canadian Minister of Finance, in a recent budget statement, considered the continuation of a high excess profits tax detrimental to capital, labor and the community at large.

During the war the fiscal policy of the Government was to raise about one-third of its required funds by taxation and two-thirds by borrowing. Now that the war is over the Government should seriously consider whether or not the amount of money to be raised by borrowing, which is in effect only postponed taxation, should be increased and the present policy of raising by taxation the greater part of the Government funds needed for current requirements should not be modified. In other words, ought not the present requirements of the Government be met by a larger part of postponed taxation and a smaller part of present taxation?

What Shall Be Substituted?

Assuming, however, that it becomes necessary to raise by present taxation all of the amount that is now being raised by the various tax laws in force, and assuming further that the economic needs of the country require the repeal of the excess profits tax, what shall be substituted for the $1,250,000,000 of revenue which was estimated to be raised by the excess profits tax for the fiscal year of the Government, ending June 30, 1920?

Some economists have suggested that the entire amount now raised by the excess profits tax be contributed partly by an increase in the flat corporation tax and partly by an addition to the surtaxes. Some economists have suggested a gross sales tax as a partial substitute and others have suggested a reasonable consumption tax upon various articles of common use.

Until sufficiently accurate figures can be compiled by the Treasury Department to indicate how much will be needed for the expenses of the Government in the several approaching years of reconstruction and until it can be satisfactorily estimated how much can be raised by the various expedients suggested, any attempt to recommend a satisfactory substitute for the excess profits tax is a step in the dark.

England has seen the need of changes in its tax legislation and has recently appointed a body of experts chosen along non-political lines to study the effect of war taxes upon business and to make recommendations to Parliament. Considering that some such course is necessary in the United States, the Investment Bankers' Association of America, at its convention in St. Louis last month, adopted the following resolution:

"WHEREAS: The Board of Governors of the Investment Bankers 'Association of America, at a meeting in Atlantic City, held in December, 1918, during the pending Revenue legislation, adopted a resolution stating it to be the sense of the board that the principles of taxation embodied in the excess profits and war profits tax provisions of the bill were and would be harmful to business development under peace conditions and should be discontinued at the earliest time practicable under reconstruction conditions, be it

"RESOLVED: That the Association in convention assembled, considering the effect of this tax upon financing during the past year and the effect it will have upon financing in the near future, deems that the time for such discontinuance has arrived and reaffirms the principles stated in that resolution, and,

"RESOLVED, FURTHER, That in order to revise the tax laws to supply any necessary revenue lost by a repeal of the excess profits provisions, the Association recommends that a non-partisan body, composed of practical and representative men, be appointed forthwith by the Government to study the effect of war taxation in its relation to business and to report at the earliest possible time its recommendations for simplifying and readjusting the Federal tax laws along lines of the least injustice and discrimination between different classes of taxpayers, and for the encouragement of business development."

The Tokyo Stock Exchange

By YASHINARI KAIWI

MANAGER OF THE EXCHANGE

THE exchange system of Japan dates from the beginning of the eighteenth century, when an organized market for rice, the only important staple in those days, came into existence in Osaka. In course of time similar institutions sprang up in various parts of the country. The transaction on these exchanges was exclusively limited at first to rice, but later on its scope was extended to include such staples as oil and gold and silver.

The first stock exchange established in Japan was that in Tokyo, and it was established not earlier than May, 1879, proving how backward and undeveloped at that time our economic conditions were. The Tokyo exchange was soon followed by a similar institution in Osaka. At present, there are nine exchanges devoted to dealings in securities, either exclusively or in combination with other lines of commodities, but of these the two oldest ones naturally stand foremost.

The exchange in Japan differs from that in England or America as to official control. The Japanese laws are based more on the Continental system and their underlying principle leans in consequence towards interference. The exchanges, whether dealing in commodities or in stocks and shares, are equally placed under the same legislative measures and alike subject to the strict control and supervision of the Minister of State for Agriculture and Commerce. He is vested with the authority to supervise the working of the exchanges, to prevent or remove any abuses and irregularities that may arise in connection with it and also to issue instructions and regulations for regulating the business of the exchange.

The Exchanges Act now in force was first introduced in March, 1893, while the Rules of Operation were promulgated in July, 1914. These principal and supplementary provisions remain in force with some alterations effected from time to time.

Any flourishing business center may establish an exchange for dealings in one or more lines of business, subject of course to the sanction of the Government. Only one exchange is permissible within one district for one line of business. The charter is good for a period of ten years, renewable on expiration.

One of the most striking features peculiar to the Japanese system is that the exchange may be organized as a limited liability company with its capital stock divided into shares. The law recognizes the association form after the Western model, but all the exchanges now in existence in Japan are on the limited liability plan. One thing that is most characteristic of this form of exchange is that *ipso jure* it stands as security, to the full extent of its subscribed capital, for the fulfilment of all the contracts duly entered into on the floor. This being the case, the exchange, in all cases of default, is held responsible to indemnify the loss resulting therefrom. Either party to a contract is thus made entirely free from taking any heed of the financial standing or integrity of the other party with whom he is dealing, and what is more, the buying as well as the selling parties are in no way annoyed by the possible insolvency of their respective contractees, pending the term of the contract.

Exchange Gets Commission

On the other hand, the corporate exchanges are entitled to charge commissions on all dealings transacted on the floor, both upon the buying as well as the selling parties, at the rates sanctioned by the competent authorities. The proceeds from this source constitute the main resource from which the exchange declares dividends in much the same way as is the case with the ordinary business corporations.

Now the Tokyo Stock Exchange is a corporation with a capital stock of twenty million yen, divided into four hundred thousand shares of fifty yen each. The administration of the exchange is vested in a board of directors composed of five members and presided over by a superintendent. Besides, there are three inspectors whose duty it is to audit the semi-annual accounts made out by the directors, to be submitted to the shareholders' meeting for approval. All these officers hold office for a term of two years, and are elected, subject to the government's sanction, from among the shareholders of the company, of not less than fifty shares.

From the peculiar nature of the exchange in Japan, no contract shall be deemed legitimate, and therefore, bind-

ing, unless both parties to it are legally registered brokers. It follows, therefore, that all bargains, whether effected by the brokers for their own account, or for that of their principals, must alike be booked in the name of the brokers concerned.

Brokers are Licensed

Government license is required for a broker, and he must be a subject of the Empire, and of full age. Every broker is required by law to deposit with the exchange "fidelity money," the sum of which differs according to the exchanges. In Tokyo it is fifty thousand yen. When a broker is elected an officer of the exchange or is newly installed as a broker of any other exchange, his connection with the exchange to which he has belonged ceases.

There are two kinds of transactions recognized on the floor, namely, time-bargains and forward bargains. Forward bargains are those in which the selling party undertakes to deliver the other party the specified amount of securities, at the price agreed upon, within fifteen days including the day of contract. On the other hand, the time-bargain is a sort of transaction for future account, binding both parties to effect delivery upon the date specified by the exchange for the purpose. In the Tokyo Stock Exchange, the account invariably falls due at the end of the month, ordinarily on the last day but one. The contract for account, however, being allowed to run pending three accounts, a bargain can be contracted for, in the course of a certain month, for the settlement at the end of either the current month, the following month or the month ensuing thereafter.

The unit of transaction in the dealings for account is 10 shares or $1000 par value of public loan bonds or any other debentures, any odd lots other than these not being marketable on the floor. With regard to forward bargains, there is practically no standard unit, but as a matter of course, odd quantities are less easy to deal in. In all cases bids and offers to buy or sell shall be made for 1 share or for 100 yen or the minimum par value of the bond. In reality, however, few bargains are now transacted for account on the Tokyo exchange as regards the latter.

The manner in which time-bargains are consummated and contracts for account become binding, is most characteristic; in substance, it is as follows:

Two Sessions Daily

Usually there are two sessions on an ordinary business day, each session having two rounds of calls for all the securities upon the list. The call is made according to the order of bonds and shares as arranged by the exchange, the transactions for the three different accounts being done separately and consecutively. Buying and selling on the floor is facilitated by the aid of signs and signals peculiar to the exchange, and all the bargains done are quickly taken note of as soon as they are effected, by some clerks of the exchange specially installed for the purpose. Bids and offers are allowed to be made and accepted until what is deemed an equitable and normal price is arrived at. Then the secretary upon the rostrum announces by a clap of blocks that no further transactions are to be registered. Upon this, all the bargains entered in the Market Memorandum become binding simultaneously at the single and uniform price officially declared by the exchange, and irrespective of the original prices at which the respective contracts were entered into. Therefore the jobbers should be keenly on the alert to do or undo all the sales, as the circumstance may be, prior to the official announcement of the quotation. Then each broker's sales and purchases are set off and made null and void so far as they match with each other, unless he sends in a declaration to the contrary in time.

MR. YASHINARI KAIWI is at present manager of the Tokyo Stock Exchange, the leading exchange of its kind in Japan, and is head of the Japan Government's authorization to study the workings of the exchanges in America and Europe. Incidentally, another part of the task of this commission is to study the silk industry of Italy. Mr. Kaiwi speaks with authority and presents in this exclusive article, a remarkable analysis of the development and workings of the Japanese exchanges.

Mr. Kaiwi, who is only about 38 years old, has had a very interesting career. He was graduated from the University of Tokyo, and then went into the Government service as a traveling factory inspector. When the war broke out, he was made "Rice Controller," a position corresponding very closely to that held by Mr. Hoover in this country, and, in fact, Mr. Kaiwi delights in private conversation in calling himself "The Little Hoover." After the war he was made Manager of the Tokyo Exchange.

The point in American stock exchange practice which troubled the Commission most was the technique of borrowing stocks, but this was very adequately explained by a leading student of finance in this country.

One remarkable feature in the time-bargains is that pending the term of contract the securities bought or sold for account can be freely re-sold or repurchased, without the knowledge of the other party. The party effecting such a re-sale or re-purchase shall be entirely released of the fulfilment of the contract, upon payment or receipt of the difference between the original and the re-sale or re-purchase price. The duty to effect delivery will devolve upon the party with whom he has stipulated such a bargain. It may be repeated here that, in Japan, the exchange guarantees the performance of all the contracts duly entered into on the floor; and the custom above referred to doubtless owes its origin to this guarantee system. Of course the final object of time-bargains is the same as the forward bargain so far as regards the bona fide delivery of securities, the only difference being that for the former a longer interval of time is allowed to stand between the conclusion of the contract and its settlement.

There being on an ordinary business day two sessions, each with two rounds of calls for all the securities upon the list, dealings in any one kind of stocks transacted on any one day may vary in prices, but in registering these bargains on the record of the exchange, they all are reduced, for convenience's sake, to a single price specially quoted for the purpose, the exchange paying to, or receiving from the parties concerned, the differences between the respective contract and the record price. The arrangement for quoting every security twice in a session is thought to allow more opportunities for dealing.

Margin Requirements

Quite contrary to the Western custom, the form of time-bargains on the Japanese exchange is that of trading on margins. A margin differs according to the nature of the security and the then prevailing situation of the market. The rate generally ranges from somewhere about 4 or 5 to 15% of the market prices. Not infrequently, in the event of wider fluctuations of the prices, deposit of extra margins by the losing parties is insisted upon by the exchange, in conformity with the provisions of the rules of the exchange. Monetary deposit may be substituted by the deposit of approved securities.

All deliveries and payments should be made through the medium of the exchange; otherwise they are not regarded as legitimate. Clearing facilities are not yet made use of in Japan in connection with the settlement of the transactions upon the floor although deliveries are simplified by the establishment of the uniform delivery prices.

Shares and debentures are placed upon the list after the business condition and financial standing of the applying company are judged satisfactory, and in like manner, the exchange authorities may at any time suspend, at their own discretion, dealings in, or summarily cancel from the list the securities of any corporation judged internally unsound, or when their dealings are regarded as perilous to the welfare of the exchange.

The following table shows the highest records attained by the Tokyo

Stock Exchange, and they may be helpful in forming a general notion of the volume of business done there.

A day's sales, 402,590 shares, (Sept. 22, 1919.)

Bargains outstanding for account, 2,578,710 shares (Sept. 22, 1919.)

Margins on deposit, 37,845,580 yen (Aug. 26, 1919.)

Extra margins, 34,532,055 yen (Dec. 18, 1916.)

Deliveries, 569,200 shares (August, 1919.)

Deliveries, 69,188,290 yen (August, 1919.)

The proportion of deliveries to the grand total of sales is somewhere near 20%, the remaining 80% being practically adjusted and settled by means of re-sale and re-purchase.

How I Handle My Own Funds

By RICHARD D. WYCKOFF

CONTINUED FROM THE MAGAZINE OF WALL STREET FOR NOVEMBER 29

HAVING accumulated enough money to go into business for myself, I resigned from the big wire house and began to deal in unlisted securities. Later on, with some associates, I formed a New York Stock Exchange firm, became the managing partner and for a number of years continued in the stock brokerage business. This put me in intimate touch with the operations of customers, and a number of other large operators.

I concluded (1) that the majority of those who were buying and selling securities were almost totally ignorant of the business, (2) they were mentally lazy. They showed no desire to increase their knowledge of the subject, but anybody who gave them tips or so-called "information" held the greatest attraction for them, and, (3) very little educational literature was obtainable, even if they had been inclined to devote thought and study to self preparation.

It was astounding to me how men, shrewd, careful and successful in their own business, would come down to the Street and throw caution to the winds when they undertook to deal in stocks or bonds. I had reached a point where I was a fair judge of the market, did my level best to aid them, did help a great many people make considerable money; most of them wanted to lean—not to learn. They just drifted along, guided by hope of profit and pursued by fear of loss.

The clientele with which I came into contact during those years gave me a clear idea of the psychology of the average trader and investor, and I found that as a rule his viewpoint of the market was very much warped; that he did, most of the time, the opposite of what the large and experienced operator would do, because he judged by the surface conditions of the market and not by the highly important technical conditions. A clear understanding of these, I saw, was most vital to anyone who expected to operate successfully. And so it came about that for a considerable time I devoted most of my thought and attention to the investment side of securities rather than the speculative.

Magazine as a Self-Educator

After founding, during the panic of 1907, the Magazine of Wall Street, then known as "The Ticker," I began to receive numerous inquiries from people who were anxious to learn more about the swings of the market, and I also received contributions of articles from those who had studied these subjects. Another kind of communication contained a description of methods more or less mechanical on which the writers desired opinions. At that time there was a wide interest in the search for a method of operating which would do away with fallible human judgment. And while this seemed to be a species of rainbow chasing, there is no doubt that I was able to learn much from a study of the different kinds of recorded market actions. Some of the points which I acquired through the examination of numerous ideas submitted and some other points which I studied out for myself greatly aided me in judging the market.

> *THE intelligent handling of funds in order to derive legitimate profit from their use is a business demanding highly specialized training, which may be acquired only by patient study of investment conditions. In his last article Mr. Wyckoff brought out the fact that he did not begin to invest until eight years after his studies had commenced and that he did not start trading until six years after that.*

The reason for this is that all graphs, charts, diagrams, etc., which form pictures of the movements of individual stocks or groups of securities, are but the concrete history of the impression of many minds upon the market. And my object in studying along this line was not to follow these indications blindly, but to see what kind of mental operations caused them. By thus reasoning out the good and bad points in the psychology of the public I hoped to get at the true method of operating. So right here I would like to say a good word for all forms of graphs which are apt to be greatly abused and misused by people who have never taken the trouble to investigate their value. There is scarcely a business or profession today that does not employ graphs as indicators of conditions, operations, etc., in thousands of different forms. What, therefore, could be more logical than to adopt graphs as a means of seeing and clarifying such a complex proposition as the security market.

As time went on, my publication office became the center of interest to a great number of people who had tackled this problem from various angles, and in the examination of their ideas and by the adoption of good and the elimination of the bad points, I gradually formed a fairly clear idea as to how a permanent success might be established by one willing to devote his time and attention to the matter, making all else secondary. As demand arose from many quarters for information on the subject of judging the market from its own action, I decided to make a specialty of this subject, study it out and write about it as I went along. The outcome of this was the book, "Studies in Tape Reading," which has since been reprinted in many editions. But the principles therein stated have not changed through all the vicissitudes of the market during the dozen years which have elapsed since the book first appeared in serial form in this magazine.

Many people will say it is one thing to write about a difficult proposition like the security market, and quite another to put your ideas into practical effect; that is, to make money out of them. Suffice it to say that since I wrote that book I have made a very considerable amount of money for myself and in the aggregate millions of dollars for my subscribers by applying the methods therein set forth, viz., by judging the future course of the market and of individual securities by their own action. And I expect to keep on making, each year, much more money than I spend, because the principles in that book are absolutely sound and practicable, as proven by the dollars derived from the market thereby. (I have no clients now and will not accept any as the magazine and my personal affairs require all of my time.)

In "Studies in Tape Reading" I suggested trading for daily profits with the object of making a fractional profit over losses, expenses, commissions, etc., on the average, per day. But eventually I found that I could get much better results by operating for the five, ten and twenty point swings. Furthermore, I learned that to operate in the latter way was to lessen the nervous strain occasioned by watching the tape every minute of the day and carrying all the quotations of the leading active stocks and their previous action in my head.

I found that the real money was to be made in the important swings running thirty to sixty days on the average, in which accumulation or distribution was clearly marked while the movement was in its preparatory stages. Experience showed that every well planned and executed campaign in the market has three stages: First, in the case of an upward movement, the accumulation would appear

and this might run several weeks or months. Next, would be the marking up stage, where the stock was forced upward by either bullish news or aggressive buying until it reached the level where distribution could take place. The third stage was that of distribution. Operations for the decline would be the opposite of this.

Very often a stock which was being marked up would be driven far beyond the point where a substantial and satisfactory profit could be realized, but as large operators work on an average buying and selling price rather than on a definite figure, in such cases their distribution would take them on the way down. For instance, if a stock was accumulated within a range of from 5 to 6 and the objective average selling point was 8, the issue might be driven up to par and then sold on the way back to 70, so that 80 or better would be the average price received for what was sold.

These points are explained so that the reader may get an idea of how I worked out my problems, my object being to find out or reason out what the large operator did and how he did it; then I could operate in the same way, and probably with greater success. I saw the great advantage in operating with the mental attitude of the professional trader instead of the attitude of the unsophisticated outsider.

Putting Theory Into Practice

As previously stated, I first tested out my theory by dealing in fractional lots of stocks. My progress was often halted by unexpected changes in the market, my own tendency to get away from my principles, new developments which caused me to revise many details, and lastly, the necessity for a long series of transactions which would give me a new background of experience in this particular way of dealing.

Before I was really successful, I had to practically rebuild my own trading character. One of my greatest difficulties was impatience. Being of an active disposition I could not sit still long enough to allow a big profit to accumulate. In certain periods the brokers made more in commissions than I made in profits. At other times I allow myself to be influenced by other considerations rather than the action of the market. But finally I overcame most of these faults and began to reap a real benefit from all the thought and self-training I had put into it.

Without going into all the many details connected with judging the market, which with long practice resolved themselves into a sort of intuition, as explained in "Studies in Tape Reading," I have been successful in anticipating what were apparently the turning points in the ten to twenty point swings in the market. And as every one with a knowledge of the market will understand, success in this line consists in having a greater aggregate profit over the year than the total amount of losses, commissions, tax and interest charges.

I realize that people in general hold to the illusion that any man who can make money in the stock market should make it by the million. The public seems to think that once you know how to tap the money reservoir all you have to do is let it run. No fallacy could be more misleading.

It is true that a few large traders make spectacular profits at times. But their losses are usually in proportion and you never hear of these. Those who make millions risk millions—often all they have on a single operation. And they frequently go broke. That is one condition which I never have experienced in the stock market, because I never allowed myself to get into a vulnerable position, and I have withstood several panics without serious losses.

Making a whole lot of money all at once is not my trading objective. I use a comparatively small amount of money in trading—not over five or ten per cent of my loose capital—because I have no desire to spread myself out too thin or operate in such a way that any unexpected event will cripple me. I know that there are a number of people who look upon profits as a means of enlarging their market operations. My method is to pull down the profits and invest them in safe income-paying securities preferably those which have an opportunity to enhance in value.

No Large Capital

There is a much greater satisfaction in operating with a small amount of money for various reasons: It makes you more careful, because having set yourself to the task of realizing a large profit on a limited amount of operating capital, you plan your moves shrewdly and do not take risks such as you would if operating with more money. In the next place you feel that you are risking very little to make considerable. There is vastly more satisfaction in making $10,000 on a $5,000 capital than in making the same amount where $25,000 is employed.

The operations which have been the most gratifying to me are those in which I have taken at various times $3,000 and put it into an account in a broker's office where I could get the right kind of service, at a time I expected a move of 12 or 15 points in a certain security. One of my favorite stocks in this respect is U S. Steel with which I have probably had greater success than any other issue. A few years ago when I was very busily engaged and could not watch the market all day I used to wait for U. S. Steel to get into position where I expected such a sharp upward or downward move and then I would buy (or sell) 300 shares, placing a three point stop order for protection. Every two points up I would buy another hundred shares, protecting each additional lot with a three-point stop. After the stock had risen about ten points I would discontinue buying. By that time I would have 800 shares. I would take my profit on a further advance or raise the stop order so that I was sure to have at least several thousand dollars profit.

In this particular year that I mentioned above, I did very little trading except three such campaigns in U. S. Steel, where not more than $3,000 original margin was used in each campaign, but my net profit on the three campaigns was about $20,000. This is what I call good trading because it was done with very limited risk and the profits were large in proportion to the original amount. After the first campaign, the profits were sufficient to supply the capital for the second and third operation.

Now this is not intended to convey that I, or anyone else, can continue to trade indefinitely with a high degree of success. It merely illustrates one method of operating which has the advantages described. It always reminds me of a war-ship which, instead of turning its broadside to the enemy, shows only its bow and thus makes much less of a target. Quite a number of men in Wall Street operate in this way. You don't hear about them, because they don't happen to be publishing magazines or writing books. As an old friend of mine told me a few days ago, speaking of a former member of a New York Stock Exchange firm: "He is the most successful speculator I ever met. He will watch a stock carefully and when he judges by its action that it is ready for an important move, he will buy perhaps 500 shares and if it goes in his direction he will buy additional lots every point up, but if it should decline two or three points after he has bought it, he will throw it out immediately on the ground that his first judgment was wrong. He has made so much money now that he takes up, and pays for, ten thousand share lots of stock, which of itself is evidence of what he has accomplished."

Qualifications of a Trader

Before I go any further, let me say that not every man is adapted to trading in stocks. In fact, very few are fitted for the work if it is undertaken as an art, a business, or profession whatever you wish to call it. One reason is that most men have a commercial training, and this unfits them for dealing actively in securities. One of the worst traders I ever knew was a man who was highly successful, in fact, had made a fortune, in real estate. His method was to buy lots on the fringe of

---

Tape Reading

US WP US
3500.47½ 48.1.108½ 47⅞

Successive sales are made as follows.

6800 . 47½ . 2600 . ⅜ . 500 . ¼ . 8800.⅛

From this time on there is a steady flow of long stock all through the list. Reading and Pennsylvania are the weakest railroads. Colorado Fuel breaks seven

steel stocks follow suit. U. S. Steel is dumped in bunches at the bid prices, and even the dignified preferred is sympathetically affected.

US . PR
.500.48⅝ .3500.½ 200.110¼.200.½.1800.110

At the end of the two-hour session the market closes at the bottom, with Steel at 46, leaving thousands of ac- [illegible] weakened by the decline

"STUDIES IN TAPE READING"
A facsimile of one of the pages in the volume.

the city and sell them out whenever he secured a substantial profit. He applied this method to the stock market. The result was that he bought in all kinds of markets, and very often had to carry securities for months or years before he could get out. He did not realize that in a growing city the tendency might change its course several times a year, and there are cross currents and counter currents which must be allowed for, which are not present in real estate.

The merchant who buys his goods wholesale, knowing that there is an established market which will yield him perhaps a ten per cent profit after overhead and selling expenses, is also handicapped when he comes to Wall Street. One reason is that he is accustomed to buying before he sells, whereas a man who is trading in securities should be able, ready and willing to sell short with as great facility as if buying for long account. The merchant is familiar with the market in his own field. He judges that market by the supply and demand, and his purchases are made accordingly; but in Wall Street he does not study supply and demand because it is a very technical subject and requires close attention for a number of years before one can master it. Even then, the best and most experienced traders have their bad times and their unfortunate seasons when the character of the market becomes too puzzling or for some reason their judgment is not up to par.

The manufacturer sells short when he takes orders for goods he has not yet manufactured. He sees orders for these goods piling up and thereupon covers his short transactions by purchasing the raw material and eventually manufacturing and delivering the finished goods; but when he enters the business of buying and selling securities, selling short is the last thing he wants to do. From this it will be seen that special training is necessary if one is to avoid joining the ranks of those who have met the enemy and have been defeated.

Fundamental Trading Rules

Bear in mind that I am referring to the business of active trading and not to the business of investing successfully, which is an entirely different proposition, as will be described later.

Some of the principles which I have found to be advantageous in trading are as follows:

THE MAIN FACTOR IS THE TREND. If you work in harmony with the trend of the market, your chances for success are three or four times what they would be if you buck the trend. That is, if you buy in a bull market, the trend will, under ordinary circumstances, give you a profit; but if the trend of the market is downward, and you take a long position, the only way you can get out is on an incidental rally. This brief statement covers the point about as well as could be done in many chapters; besides it has been gone into more elaborately in past volumes.

RISK SHOULD ALMOST INVARIABLY BE LIMITED. Not only the experience of those whose trading I have observed but my own experience proves that whenever one departs from this general principle he is inviting serious losses. The best way is to form a habit of placing two or three point stops behind any trade which is made for the purpose of deriving a profit from the fluctuations. Harriman said three eighths of a point or one point is enough, but of course he was originally a trader on the floor of the Stock Exchange. The most successful traders have followed this rule and its importance cannot be overestimated.

ANTICIPATED PROFITS SHOULD BE AT LEAST THREE OR FOUR TIMES THE AMOUNT OF THE RISK. It must be expected that a percentage of your transactions will show a loss. The trader should aim to have such large profits on his successful trades that the losses and other expenses will still leave him something to the good. Profits can often be protected by moving stop orders up or by selling one-half of the commitment in order to mark down the cost of the remaining half. Many articles on this subject have appeared in past volumes of the Magazine of Wall Street.

ONE SHOULD BE ABLE TO DEAL FREELY ON BOTH SIDES OF THE MARKET. Any one who is unable to do this had better become an investor instead of a trader, buying in panics or on big declines such securities as appear to be selling below their intrinsic value.

DEALING SHOULD BE IN THE ACTIVE STOCKS. In order to make a profit, a stock must move. A great deal of money and many opportunities are lost in keeping yourself tied up in stocks which are sluggish in their action. In a commercial line you would not carry goods on your shelves indefinitely—you would keep your stock moving. In trading keep in moving stocks.

YOU SHOULD MAKE A BUSINESS OF TRADING OR DO NOT BE A TRADER. You cannot be successful at trading any more than you can be at mining, manufacturing, doctoring or anything else, unless you are trained for it. By training I do not mean an occasional dab at it. Bear in mind that unless you are peculiarly adapted to it you had better become an intelligent investor instead of an unintelligent trader.

In the next instalment Mr. Wyckoff will state some of his investment plans and principles.

A Million Dollars Nobody Wants

SOMEBODY has snubbed a million dollars. The million lies in the vaults of the Treasury Department waiting for somebody to come and collect it. It represents the principal and accumulated interest on many varieties of Government securities—some issued even before the Civil War, but most of them since. The date of maturity is past and gone long ago and interest has ceased to accrue.

Some of them probably have been lost in fires or otherwise, but Treasury officials think that if everybody in America would go through old papers, handed down from grand fathers and great uncles, most of the securities would show up.

When securities are burned or torn up by the baby, their owners usually get very busy. And if they can conclusively prove that their securities were destroyed, the Treasury department pays up. In cases, however, where there is reasonable doubt about the destruction of bonds or other securities, Congressional action is required before the owner can be reimbursed. This was true when the Titanic went down. That ill-fated ship carried government bonds, but positive proof of their destruction could not be given. And so Congress provided relief for the owners.

Occasionally somebody stumbles across gilt-edge bonds among old papers and rushes to the Treasury to cash in, but during several years these occasional redemptions have not greatly lowered the fund. A list of the securities on which interest has ceased, at the beginning of this year, was as follows:

Funded loan of 1891, continued at 2% and called for redemption in 1900, when interest ceased	$4,000.00
Funded loan of 1891, matured September, 1891...........	19,950.00
Loan of 1904, matured Feb. 2, 1904	13,050.00
Funded loan of 1907, matured uly 2, 1907................	419,700.00
Refunding certificates, matured July 1, 1907	10,950.00
Old Debt, matured at various dates prior to Jan. 1, 1861, and other items of debt matured at various dates since Jan. 1861	900,330.26

Besides these there are certificates of indebtedness, at various interest rates, now matured and the loan of 1908-18, aggregating approximately six and a quarter million dollars. Those listed, however, comprise most of the million dollars about which somebody is very careless.

Presumably, a half-century from now, when our grandchildren will be berating us for not having left them some likely government securities, this treasury fund will have been swelled to much greater proportions than this and among our stock certificates of very uncertain value, receipts from the life insurance company and what not, a couple of bonds, a book of war Savings Stamps or Treasury Certificates will lie overlooked for years.

But this will not happen to the average man—not while he's conscious. He knows too well that the W. S. S. he buys this month at $4.19 will be worth a five dollar bill Jan. 1, 1924.

LOOKING INTO 1920

Our Position in the Major Trade Cycle Indicates the Probability of Generally Good Business Conditions for Several Years at Least

By G. C. SELDEN

Article I.

> In the first chapter of "A Century of Prices," by Ex-Senator Theodore E. Burton and G. C. Selden, the authors say: "In this field it is most emphatically true that coming events cast their shadows before. We shall endeavor to dwell for the most part upon those factors which can be of practical help in the interpretation of the present and the future." I have therefore asked Mr. Selden to apply these methods, so far as may be practicable, to a forecast or estimate of the probabilities for 1920.—Richard D. Wyckoff.

IN Chapter III of "A Century of Prices" mention is made of the "major trade cycle"—the broad swing of business activity from prosperity to depression and back again, covering a period of something like twenty years, which has been such a noticeable feature of our trade since 1837.

In Chapter V the "minor cycle" is discussed, a fairly regular swing of prices, usually covering about two years of advance and one year of decline, which has been plainly discernible since 1884; and attention is called to the fact that "the spirit of speculation, unrecognized, or at any rate not called by that name, permeates all business, and the minor cycle in a modified form is a feature of industry as well as of the stock market."

If the existence of these two forms of cycles is admitted—and it seems to me that it is quite clearly shown by the elaborate diagrams included in "A Century of Prices"—then our first effort, in looking into 1920, should be to determine the position of that year in both the major cycle and the minor cycle.

This does not assume any iron-clad certainty about the movements of trade cycles. It must be clearly understood that these cycles, either major or minor, represent the outworking of economic and psychological factors, and that these forces work more rapidly at some times than at other times because of the great difference which may exist in other influences.

For example, we cannot say that because a bull stock market has usually lasted about two years, the bull market which began from the semi-panic prices of December, 1917, must culminate by the end of 1919. There may be other factors in operation which would cause it to extend into 1920.

In other words, while the existence of these cycles can hardly be questioned, a considerable leeway of time must be allowed in any particular case. Our method must be, not to attempt to measure off the cycle by months, but to see how far the various factors have progressed which lie at the basis of the cyclical movement.

The Broader View

It is important, first, to estimate our position in the major cycle. If we are now in a broad upward swing, likely to continue, let us say, for five years, then it is probable that the minor upward movements will be longer and the minor downward swings shorter than would be the case if we were in the broad downward "leg" of the major cycle. Also, minor depressions or reactions in trade would be much less severe during the upward swing of the major cycle than during the downward swing.

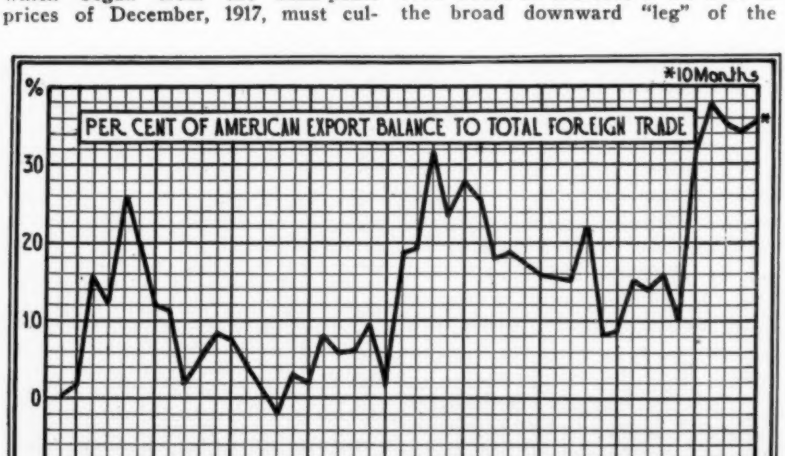
A twenty-year cycle is too long to interest the business man or investor, so far as its immediate and practical influence on his affairs is concerned, but it is nevertheless extremely important as shaping the course of the minor cycle, which is or should be a matter of vital interest in the formation of business or investment policies.

One of the clearest indications of the progress of the major cycle is found in our annual excess of exports over imports. The "mercantile theory," which assumed that the prosperity of any nation depended upon selling more goods to other nations than it bought from them, has long since been exploded. We fully recognize today that the advantage of foreign trade must be mutual; that the country which receives so much interest money from its loans in other countries that it can afford to import, on the average, more goods than it exports is in a very fortunate position; and that, broadly viewed over a long period, an excess of exports over imports or the contrary has little or nothing to do with the general prosperity of the people.

On the other hand, there can be no question that a large excess of exports over imports has a very important immediately stimulating effect on domestic trade. Or to put it a little more accurately, a large excess of exports is a symptom of conditions which permit and encourage continued business activity.

An excess of exports is an indication of relatively low prices for merchandise as compared with the prices prevailing in other commercial countries. Naturally, the lowest market gets the business. If our prices are relatively low in the world's markets, they have room to advance; and advancing prices tend to stimulate trade.

The direct means by which an excess of exports tends to stimulate domestic trade is through the gold which, under normil conditions, must come in to pay for the goods sold abroad. This gold enters into the bank reserves of the country and thus permits a broader extension of credit—and as we all know, expanding credit means good business until the point of over-expansion is reached. At present, the inability of Europe to send us gold in payment for goods complicates matters. Of this, more later.



Our Foreign Trade Position

The graph herewith showing the per cent. of the American export balance yearly to our total foreign trade is reproduced from "A Century of Prices" and brought down to date. It reflects with remarkable fidelity the swing of the major cycle. The sequence of events in each cycle is as follows:

1. Relatively low American prices start an influx of foreign buying orders.
2. Our excess of exports rises rapidly for several years.
3. Our prices rise to the point where exports begin to fall off.
4. Our export balance gradually declines, but domestic business continues generally good for about ten years after the high point of exports is passed.
5. We suffer a trade depression, which eventually brings our price level down to the point where foreign buying becomes large, and the cycle starts over again.

It seems reasonably safe to assume that our relative excess of exports over imports in 1916, under the big stimulus of the Great War but before we were ourselves drawn into it, will not be exceeded for a long time to come. If so, the year 1916 in the present major cycle would correspond to the years 1898 and 1878 in the two preceding cycles, and 1920 would roughly correspond to 1902 and 1882.

The period following 1902 is fresh in the minds of most readers. With the exception of a slight trade depression in 1904, business continued remarkably prosperous until the fall of 1907—which, under the above assumption, would correspond to 1925 in the present cycle.

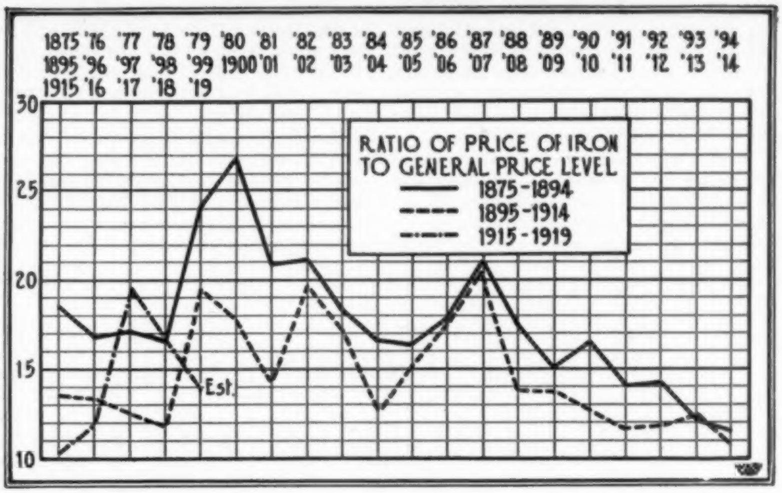
The prosperity which followed 1882 was not so pronounced as that which came 20 years later—largely, I believe, because we were then in the midst of a long downward trend of commodity prices. (See graph opposite page 64 in "A Century of Prices.") Nevertheless generally prosperous conditions continued until about 1890, after which a gradual falling off of activity was noticeable, followed by acute dullness in 1893-6.

Iron as an Index

Another useful indication of the progress of the major cycle is found in the ratio of the price of pig iron to the general price level, shown on another graph herewith.

The principle upon which this graph is based is that periods of prosperity are also periods of large new construction, and iron is the most important material used in new construction. Therefore, during such periods the price of iron will naturally be relatively higher than the prices of ordinary "consumption goods." By charting the ratio of the price of iron to other prices we can easily see when there was an exceptional demand for iron.

The grade of iron on which the graph is computed is No. 2 Southern at Cincinnati. For the general price level, the average of commodity prices is taken as shown by the graph in "The Century of Prices."



There is an astonishing, and indeed almost uncanny, similarity in the movements of this ratio for the years 1875 to 1894, and 1895 to 1914. Pig iron was, of course, lower in price during the second twenty years than during the first twenty, because of great improvements in the methods of making it. I imagine that the close similarity in the yearly movement from 1879 to 1887 and from 1899 to 1907 must be partly accidental—at any rate I should not want to lay much stress upon it. But the three main movements—

The big burst of buying;

The continued good, though irregular, business for some years;

And the later gradual fall of the ratio for about a decade,

are, I believe, based on sound economic principles.

It will be observed that this line, like that for excess exports shown on the other graph, made a high point two years earlier in the cycle than the first high point of the preceding major cycle, and has likewise been followed by two years of decline; so that our natural conclusion as to our present place in the cycle would be the same as derived from our foreign trade position.

If our reasoning is correct here, the iron and steel business should be generally prosperous—with the usual reactions—until about 1925, the year which should roughly correspond with 1887 and 1907.

There are, of course, many other kinds of figures which could be used to show the general progress of the major cycle. I have chosen these because they bring out the broad swing with special clearness, and because they are based on the two great factors of prosperity—liberal exports and large new domestic construction—the latter being the result of activity in the development of new business enterprises and in the enlargement of older ones.

These two principal factors move together, because they mutually react on each other. A big excess of exports stimulates domestic business, and through it new construction; while large new construction tends to produce a good volume of merchandise which can be sold abroad at reasonable prices.

The objection will be raised that although in the past a big excess of merchandise exports has brought gold to this country and thus stimulated business, at present, in spite of the fact that our exports are large, the gold is not coming and has not been coming since April, 1917, when we entered the war. Not only that, but in the six months ended with November, 1919, our net exports of gold were $275,000,000, a much larger amount than the net exports of any previous full year in our history.

In the four years 1915-1918 our net imports of gold were over $1,150,000,000. Exports so far have been less than 24% of that sum. Moreover, under our new bank laws a dollar in gold goes a great deal further in supporting both currency and credit than it did before the war. But in spite of all this Federal Bank reserves have fallen to 45½%, against a legal requirement of about 37½%, and the Federal Board has recognized the necessity of endeavoring to control the further extension of credit. So it is clear that further gold exports will have an appreciable influence upon our general credit situation.

It is an anomalous situation that, in a year when our excess of exports over imports will be far larger than ever before—probably approaching $4,000,000,000—we shall nevertheless have exported about twice as much gold as ever before. The reason is known to everybody—the nations to which we are exporting in such tremendous quantities cannot send us gold, while we are releasing gold freely to the countries from which we are importing.

But of course we are not giving away these big exports, even though we do not get gold for them. They are being paid for in credit, and if the credit is good we are storing up for ourselves a big future income. Before the war

we owed foreigners about $500,000,000 in interest money and other minor items. Now they owe us every year pretty nearly as much. And plans are on foot to extend still further credits, which will add substantially to this annual interest balance due us.

Still more important is the repayment of the principal. England and France have already repaid to the U. S. Government some small sums on account. How and when our big loans to foreign governments will be repaid is uncertain, but most of them will be paid some time, and in the mean time the interest due, being on "external loans," will doubtless be paid, with perhaps some delays.

The net outcome of this situation is that if we do not get gold for our goods we are laying up a store of future income and repayment of principal, which will strengthen our position for many years to come.

It would be impossible to go over all the features of our present economic position but, in a word, I can see nothing to interfere seriously with the conclusions above reached as to our position in the major cycle; and if those conclusions are accepted we should have about five years of generally good business ahead.

In the next issue I will take up our position in the minor cycle and the more immediate outlook.

Record Earnings and Strength of National Banks

No Failures Among Eight Thousand Banks in 1919 — Remarkable Accomplishments and Still Greater Opportunities in Their Stocks

By VICTOR DE VILLIERS

*Because of the great interest aroused by Mr. DeVilliers' first article on bank stocks, it has been thought best to discuss the position of the National Banks more fully before proceeding to tell the story of the First National **and** Chase National Banks and the Guaranty Trust Co. These will be covered in the next article, which will shed a new and interesting light on the stocks of these institutions.—Editor.*

IF the late lamented Theodore Roosevelt could but see the recent report of Comptroller of the Currency John Skelton Williams showing the war progress of the national banks he would either say "De-lighted!" or "Bully for you!" which would be inadequate to express the really wonderful records piled up by those truly American institutions—the National Banks of the U. S. A.

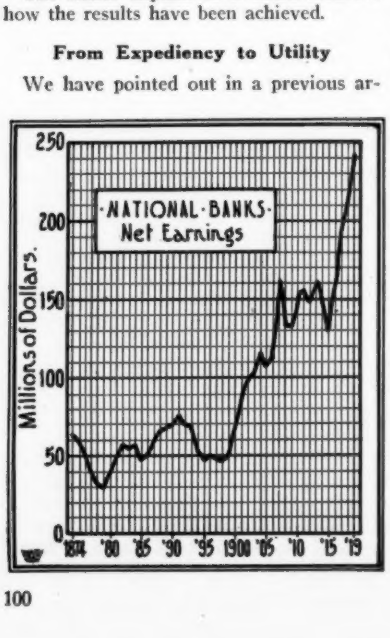
The lily needs no painting, and we leave Comptroller Williams to echo the sentiment of the entire country when he said recently:

"It is with genuine pleasure and some pride that I offer to the banks of the country my warm congratulations upon these deeply gratifying results which have been achieved by their *sound management,* their close *observance of law,* their *able direction,* and their *enterprise* during these last five and one-half momentous years."

The italics explain in a small measure how the results have been achieved.

From Expediency to Utility

We have pointed out in a previous article that the present system of national banking came into prominence shortly after the Civil War to finance Government needs for funds. The banks so created were not from their initiation an unalloyed success from one point of view. Taking Mr. William's figures as our basis, it used to be in order between 1874 and 1913 for one bank out of seven thousand seven hundred to close its doors every twenty-one days, a little over seventeen a year. This figure was never alarming at any time, and did not detract from the strength of the 7,683 that remained solvent annually. The percentage of failures from even these former insignificant percentages have been so reduced that since January, 1918, there has been only *one* failure in six hundred and fifty days, and *none* in 1919. The graph herewith shows what this means on a percentage basis. I believe no other line of business can beat the record of these banks for 1919.

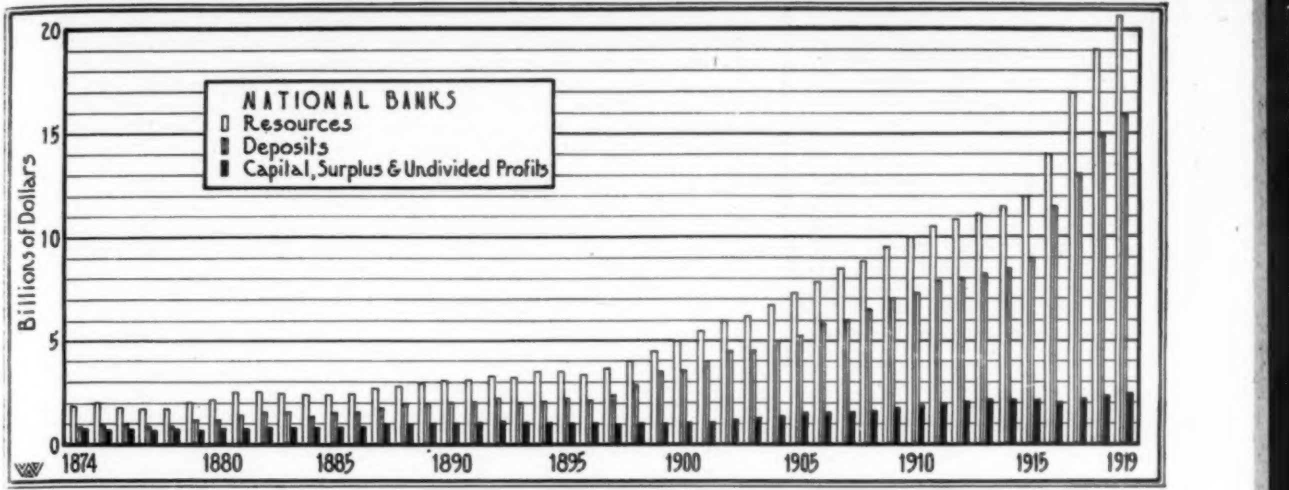


When one considers the fact that intense speculation in the market, whether in stocks, cotton, grain or land—from soup to nuts, oil leases to goats—benefits the banks, the action of the Federal Reserve Board in putting the soft pedal on speculation in recent weeks seems puzzling. On the surface, its action would appear to be altruistic, as, from one of the graphs herewith it will be seen that periods of market activity are invariably accompanied by prosperity for the banks. Perhaps the desire of the powers that be is to pave the way for the adjustment of international credits, even if the banks have to give up something to lend a hand. Logically no fault could have been found with the action; the method of hurried enforcement is probably that which hurt the most.

The last five years have been momentous from every viewpoint, but above all should go down as the greatest gambling age in history. Certainly the National Banks have good cause to remember it, and little to complain of since no other period has done them so much good. Nowhere else has our earning and saving power been so splendidly demonstrated.

In the War-Bride Class?

Everyone knows, or has heard about, the fabulous profits that have been rolled up by companies that had anything to do, directly or indirectly, with the making or supplying of raw and finished materials for war purposes. Most people have taken a hand by making or losing in the attendant excitement on the various Stock Exchanges throughout the country. Who hasn't heard of the skyrocketing of Crucible Steel, Bethlehem Steel, General Motors, Electric Boat, Endicott-Johnson, and who hasn't made or lost? Note that while the boom started with the simon-pure "war-brides"—obviously those in the elementary class making guns, bullets, armaments and explosives, and although the shares of these companies were the original war-brides, it is difficult to see where war prosperity begins and the indirect benefit of the war ends. Few, if any, corporations have been out of the war-bride class—rubbers, motors, oils, leather concerns—anything. Even the dealers in peanuts and mosquito curtains have reaped a harvest.



Why should not the banks, which handle everybody's money, make something out of so much prosperity?

They have! If they were not war-brides, they were "best man" to hundreds of thousands of them, and their just due has come to them. In the National Banks alone, according to the official figures furnished by the banks and the Comptroller of the Currency, up to the present time the net earnings have advanced from under $1,500,000,000 in July, 1914, to over $2,500,000,000 in July, 1919—an advance of about $900,000,000, or about $112,000 for each of the 8,000 odd banks.

These figures, remarkable as they are, do not tell the story. These "net" earnings have a special significance when used by banks. The word is used in its primitive and real sense meaning *clean* or *clear*, and so far as banks are concerned gross earnings go through a rigid scouring process on their annual wash-day which brings them out minus inflation, dividends, amortisation, capital increases, write-offs on properties, reserves for losses and contingencies, depreciation on securities—in fact every conceivable factor that can make them "clean." In slang, which is the best way I can explain the meaning of "net earnings" of banks, they may be described as "velvet."

The items described as "capital, surplus, etc." (the et cetera covers a multitude of virtues about which the average banker would find it difficult to give a precise exposition) advanced from a little over $2,000,000,000 to—as I understand—nearly $2,500,000,000 at present. This represents a gain of half a billion dollars plowed back after paying liberal dividends, increasing capitalization liberally, and rewarding stockholders with valuable rights meantime.

Deposits barely doubled, from about eight to sixteen billions, while the resources of these institutions advanced from a "trifle" over $11,000,000,000 to well over $20,000,000,000. This shows, by the way, that so far as the National Banks alone were concerned (and they are not the whole works) the saving persons of the American nation were able to reinvest nine billions in 5½ years.

The graphs herewith explain the position better than we can describe it in words. Clearly record prosperity is here, and there is no sign of clouds on the horizon.

Where the Money Has Gone.

It will be noted that "capital and surplus" has not increased to an extraordinary extent considering all other factors. A little over $300,000,000 is the increase in this item, the bulk being "surplus" and not "capital." There has been a lull in capital increases so far as the National Banks are concerned. The major portion of this amount represents profits "plowed back" after paying liberal dividends. The actual profits have been very much greater. The difference between this figure and the actual net profits of about $900,000,000 represents very roughly what stockholders have received in distributions during the past few years. This difference of about $300,000,000 has enabled each of the National Banks to distribute over $35,000 apiece to stockholders, and turn back about $77,000 each for rainy days.

I find that, taking the country as a whole, the favorite capitalization for the popular "small" national bank is $100,000. On a basis of these figures, if one is allowed to apply them generally, it would mean an average distribution of $35 a share in dividends, and $77 a share reinvested in the banks concerned, which is an extremely healthy position.

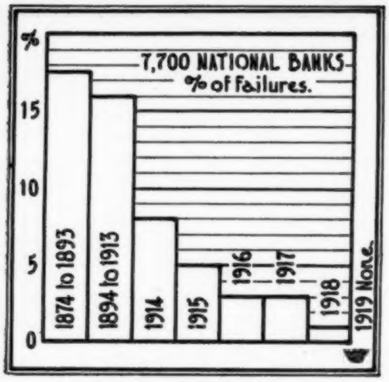
NEW YORK NATIONAL BANKS

Name	Capital	Surplus & Profits June 30, 1919	Net Deposits June 30, 1919	Dividend Rate	Par Value	Book Value June 29, 1918 %	Book Value June 30, 1919 %	Market Nov. 19, '19 Bid	Asked
American Exch.	$5,000,000	$6,317,600	$132,343,400	A'4 M&N	$100	215	226	320	335
Atlantic	1,000,000	971,900	18,481,900	B10 QJ9	100	185	197	200	...
Battery Park	1,500,000	1,538,300	11,871,900	C6 J&J	100	240	T202	215	225
Bronx	200,000	225,400	2,533,200	6 J&J	100	212	213	150	160
B'tch's & D'rs'	300,000	125,900	4,427,500	6 J&J	25	132	141	38	45
Chase	10,000,000	18,478,600	334,117,200	16 QJ	100	Q229	Q285	660	675
Chat'am Phenix	Z3,500,000	3,030,700	111,704,500	16 QJ	100	178	T186	325	335
Chemical	3,000,000	9,850,300	69,518,600	D21 Bi-mo	100	404	428	585	600
Citizens'	2,550,000	3,275,500	41,530,000	E12 QJ	100	130	T161	150	...
City	25,000,000	R54,313,700	600,165,400	F10 M&N	100	2'2	229	‡250	260
Coal & Iron	1,500,000	1,388,300	14,047,300	G8 QJ	100	U298	U317	435	445
Commerce	25,000,000	26,840,400	339,958,600	H10 QJ	100	191	T192	240	250
East River	1,000,000	606,100	9,578,000	......	100	189	207	248	...
Fifth	AA250,000	398,700	8,400,000	12 QJ	100	255	259	‡150	170
First	10,000,000	33,348,500	274,275,500	140 ‡ QJ	100	W405	R433	990	1020
First Nat., Bkln.	500,000	704,300	9,125,300	J10 QJ	100	321	T241	205	215
Garfield	1,000,000	1,377,800	13,778,500	12 QM	100	234	238	200	215
Gotham	500,000	481,000	9,165,900	8 QJ	100	203	T196	200	220
Greenpt. Nat.	200,000	239,200	3,010,700	K6 J&J	100	207	220	150	165
Hanover	3,000,000	18,118,400	142,917,300	32 QJ	100	690	704	830	840
Harriman	1,000,000	1,537,800	27,230,300	10 J&J	100	230	254	370	380
Importers' & Tr.	1,500,000	8,164,300	31,112,500	24 J&J	100	614	644	600	620
Irving Natl.	*4,500,000	6,712,300	123,400,300	12 QJ	100	V224T	V249	380	387
Liberty	3,000,000	4,737,300	63,637,300	L18 QJ	100	Y233	Y258	480	500
Lincoln	1,000,000	2,118,200	18,360,400	10 QF	100	297	312	280	290
Mch'ncs & Met.	6,000,000	12,392,500	165,101,100	20 QJ 15	100	275	303	465	475
Merchants'	†2,000,000	3,041,100	27,049,400	8 J&J	110	231	T252	235	245
Nassau Natl.	1,000,000	1,242,900	12,887,200	M10 QJ	100	217	224	205	215
New York Co.	1,000,000	414,100	13,102,100	......	100	134	141	140	150
N. Y. N. B. A.	2,000,000	5,867,900	41,670,200	N20 QJ	100	363	393	460	480
Park	5,000,000	19,999,400	181,696,500	O24 QJ	100	[illegible]	500	760	775
People's Nat.	200,000	201,400	4,204,400	6 J&J	100	189	201	137	147
Public	1,500,000	1,386,200	45,617,700	12 QJ	100	2'7	T192	325	...
Ridgew'd Nat.	100,000	134,500	4,780,400	4 J&J	100	223	234	130	...
Seaboard	1,000,000	3,971,600	50,470,000	P12 QJ	100	[illegible]	497	620	...
Second	1,000,000	[illegible]	17,624,000	12 QJ	100	[illegible]	514	400	425
Union Exch.	1,000,000	1,238,500	17,893,200	10 J&J	100	225	229	185	195

A 1% extra May 1, 1918; 2% Nov. 1, 1918; 2% extra May 1, 1919. B 1% extra July 1, 1916. C 1½% extra Jan. 2, 1919; 3% July 1, 1919. D 5% extra Jan. 1, 1918. E 1% extra Jan. 2, 1919. 1% extra July 1, 1919. F 6% Jan. and July, paid by National City Co. G 1% extra July 1, 1918; Jan. 2, 1919. H 2% extra, Dec. 28, 1917. ‡Including First Sec. Co. div. I 10% extra Jan. 2, 1919. J 2% extra Jan. 10, 1918. K 3% extra Jan. 2, 1919. L 10% extra Jan. 3, 1917. M 2% extra Jan. 2, 1919. N 2% extra Jan. 2, 1918. O 10% extra Jan. 2, 1919. P 10% extra Jan. 1, 1917. Q Ex. Chase Sec. Co. R Includes $6,000,000 surplus for foreign business. S Includes Irving Trust Co. T Capital increased. U Not including Nat. City Co. V Not including Irving Tr. Co. W Not including First Sec. Co. X Ex Rights. Y Not including Liberty Sec. Co. Z Capital increased to $7,000,000. *Capital increased to $6,000,000. †Capital increased to [illegible],000,000.
‡New stock. AA Capital increased to $1,000,000 Oct. [illegible].

What of the Future?

It is difficult to speak of big achievements without enthusiasm. It is not wise



EXPLANATION.

Out of 7,700 National Banks there were

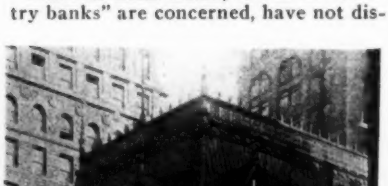
17	Failures	annually	1874-1893
16	"	"	1894-1913
8	"	"	 1914
5	"	"	 1915
3	"	"	 1916
3	"	"	 1918
0	"	"	 1919

to become enthusiastic. The facts presented are sufficient to show that there is ground for considerable optimism about the future of our banks—and their securities.

National Bank stocks, so far as "country banks" are concerned, have not discounted the improvement of the past five years in their prices. The big city bank stocks are commencing to move upward. The Chase National and Bankers Trust Company have recently announced capital increases: and very many other banks and trust companies are going to do likewise in the very near future. The nontaxability of stock dividends, if so decreed by the Courts, will be an incentive for banks throughout the country to reward their stockholders and we may then expect more activity and better prices. At the moment bank stocks are very scarce, and no one seems in a hurry to sell. It might be remembered that bank and trust stocks are all of one class, and are never preceded by bonds or preferred stocks. Their rating is almost without exception A1.

My suggestion is that the reader can do himself and the community at large the most good by investing in the stock of the bank in his own community, or where he deals—if he can buy any. I hardly believe he can go wrong in buying *any* bank or trust company stocks.

Bank officers throughout the country are to be congratulated upon their conservatism and success. Mr. Williams has told us *why* and *how* these things have been done. It is interesting to note that all the banks have done well in stimulating customers to invest and save, and have supported the Government to the limit during its financial campaigns of 1915-1919. "The Chase" (house organ of the Chase National) tells us that this bank alone sold Liberty Bonds to nearly 36,000 customers for a total of well over $270,000,000, or about $750 in bonds to each customer. This bank also handled about $380,000,000 in Government certificates of indebtedness for itself and customers, enabling Uncle Sam to get ready money in anticipation of each succeeding loan and each collection of taxes. The others all did their share.



THE NATIONAL BANKS ARE PROSPEROUS

No other period has done the national banks so much good as have the last five years. This view shows the First National Bank of New York.

Effect of Income Tax on Securities

Advantage of Preferred Stocks in Income Taxation—Why Large Investors Are After the "Tax-exempts"—Income Taxes and the Market

By JACOB H. SCHMUCKLER

MANY persons have doubtless observed the great number of preferred stocks and the dwindling relative predominance of bonds in the financing by corporations in recent months. Those of us who own preferred stocks and pay income taxes know why.

The income tax schedule for 1919 and thereafter provides for a 4% normal tax on the first taxable $4,000 and 8% on larger amounts compared with 6 and 12%, respectively, in 1918, but the surtax rates remain the same as in that year. The dividends from stocks, both preferred and common, of corporations which are directly taxable on their net income are exempt from the Federal normal income, while the interest on corporation bonds is exempt only in some cases to the amount of 2%, which the company pays at the source. A few bonds among the recent issues have the normal tax on their interest paid up to 4%, so far as this is permissible.

Preferred Stocks vs. Bonds

These few facts summarize why the preferred stock has in recent months come to share with bonds the leading place as an instrument in corporate financing. The advantage of a larger tax exemption explains the matter. There are also undoubtedly a few other causes, such as the improved financial condition of industrial companies which has improved their credit to the point where they can offer preferred stocks at prices attractive to themselves; the desire of corporate managers and bankers to replace floating and bonded indebtedness by stock

TAXES ON INCOMES OF PREFERRED STOCKS AND BONDS
(Table Assumes $2,000 Exemption)

Net Income	Rate of Tax	Normal Tax (Savel by Investing in Stocks)	Rate of Surtax	Total Amount of Tax (Being Surtax Only)	Total Amount of Tax When Income is From Bonds (Being the Normal Tax and Surtax)
$5,000	4%	$60	..	$ 0	$60
6,000	4	80	1%	10	90
8,000	8	200	2	50	250
10,000	8	320	3	110	430
12,000	8	440	4	190	630
14,000	8	560	5	290	850
16,000	8	680	6	410	1,090
18,000	8	800	7	550	1,350
20,000	8	920	8	710	1,630
22,000	8	1,040	9	890	1,930
24,000	8	1,160	10	1,090	2,250
26,000	8	1,280	11	1,310	2,590
28,000	8	1,400	12	1,550	2,950
30,000	8	1,520	13	1,810	3,330
32,000	8	1,640	14	2,090	3,730
34,000	8	1,760	15	2,390	4,150
36,000	8	1,880	16	2,710	4,590
38,000	8	2,000	17	3,050	5,050
40,000	8	2,120	18	3,410	5,540
42,000	8	2,240	19	3,790	6,030
44,000	8	2,360	20	4,190	6,550
46,000	8	2,480	21	4,610	7,090
48,000	8	2,600	22	5,050	7,650
50,000	8	2,720	23	5,510	8,230

issues, but by far the chief reason is the exemption from normal income taxation enjoyed by preferred stocks. An advantage to the investor lies in the fact that such stocks usually yield a greater return than bonds of about equal safety.

The exact amounts an investor saves by putting his funds into preferred stocks instead of bonds, as long as the 1919 normal rates prevail, for an income up to $50,000, are calculated in the table herewith. It assumes a $2,000 exemption, and that the taxable income from bonds secures a 2% exemption (that is, is paid by the company). The table is adapted from one compiled by Merrill, Lynch & Co.

The third column shows how much a man saves in income taxes if he secures an equal income from preferred stocks and bonds. The amounts are not so very significant for the first few thousand dollars of income, but for the amounts the income from the 4¼ and 4¾ Liberties is also free from the surtax.

The demand for bonds comes largely from the wealthy, and an examination of the accompanying table showing the net yield on taxable bonds (corporation and Liberties) will show clearly why they are after the "tax-exempts." In constructing the table, it is assumed that the total net tax is secured from bonds, and a $2,000 exemption is allowed. The table is adapted from a more comprehensive one published by Halsey, Stuart & Co.

Under the conditions depicted in the table, it is really remarkable how well the bond market has been holding. A man having a net income of $200,000 from bonds yielding 7% finds after paying his income tax that he really is receiving about 3¾% on his money. Of course as taxes become lighter, his return increases, but under the present their net income as well as compelling them to include gains.

While stock prices were having an almost uninterrupted advance earlier in the year, everybody was pointing out how income taxation was helping to keep prices up and how it would prevent any serious decline. The argument very simply was that the large operators could not afford to take profits because they would have such large "slices" taken from them by the Treasury. Until the recent break the behavior of the market furnished corroboration of this theory but now we must say that either a "hitch" was very carefully concealed or the decline would have been more serious if the high income tax rates had not forced the wealthy to hold on to their stocks, which they apparently had accumulated at "ground" prices.

Now, however, the talk is going the rounds that large investors are

EFFECT OF INCOME TAX ON BOND YIELDS WHEN HELD BY INDIVIDUAL INVESTORS

Taxable Income	Total Tax	Actual % of Income Paid in Taxes	Net Yield of Liberty Bonds After Payment of Taxes (On Amounts Exceeding Maximum Exemptions) 4's	4¼'s	4¾'s	Net Yield of Liberty Bonds After Payment of Taxes 4's	4½'s	5's	5½'s	6's	6½'s	7's	Taxable Income
$ 2,000	$ 0	00%	4.00 %	4.25 %	4.75 %	4.00 %	4.50 %	5.00 %	5.50 %	6.00 %	6.50 %	7.00 %	$ 2,000
3,000	40	1.33	4.00	4.25	4.75	3.947	4.440	4.934	5.427	5.920	6.414	6.907	3,000
4,000	80	2.00	4.00	4.25	4.75	3.920	4.410	4.900	5.390	5.880	6.370	6.860	4,000
5,000	120	2.40	4.00	4.25	4.75	3.904	4.392	4.880	5.368	5.856	6.344	6.824	5,000
6,000	170	2.83	3.993	4.243	4.742	3.887	4.373	4.859	5.344	5.830	6.319	6.802	6,000
7,000	270	3.86	3.983	4.232	4.730	3.846	4.326	4.807	5.288	5.768	6.249	6.730	7,000
8,000	370	4.63	3.975	4.223	4.720	3.815	4.292	4.769	5.245	5.722	6.199	6.676	8,000
9,000	480	5.33	3.964	4.212	4.708	3.787	4.260	4.734	5.207	5.680	6.154	6.627	9,000
10,000	590	5.90	3.956	4.203	4.698	3.764	4.235	4.705	5.176	5.646	6.117	6.587	10,000
12,000	830	6.92	3.937	4.183	4.675	3.723	4.189	4.654	5.119	5.585	6.050	6.516	12,000
14,000	1,090	7.79	3.917	4.162	4.652	3.688	4.149	4.611	5.072	5.533	5.994	6.445	14,000
16,000	1,370	8.56	3.898	4.141	4.628	3.658	4.115	4.572	5.029	5.486	5.945	6.402	16,000
18,000	1,670	9.28	3,878	4.120	4.605	3.629	4.082	4.536	4.990	5.444	5.897	6.350	18,000
20,000	1,990	9.95	3.858	4.099	4.581	3.602	4.052	4.503	4.953	5.403	5.853	6.304	20,000
22,000	2,330	10.59	3.838	4.078	4.558	3.576	4.021	4.471	4.918	5.365	5.812	6.259	22,000
24,000	2,690	11.21	3.918	4.057	4.534	3.552	3.996	4.440	4.883	5.327	5.771	6.215	24,000
26,000	3,070	11.81	3.799	4.036	4.511	3.528	3.969	4.410	4.850	5.291	5.732	6.173	26,000
28,000	3,470	12.39	3.779	4.015	4.487	3.504	3.942	4.381	4.819	5.257	5.695	6.133	28,000
30,000	3,890	12.97	3.759	3.994	4.463	3.481	3.916	4.352	4.787	5.222	5.657	6.092	30,000
32,000	4,330	13.53	3.739	3.972	4.440	3.459	3.891	4.324	4.756	5.188	5.621	6.053	32,000
34,000	4,790	14.09	3.719	3.951	4.416	3.436	3.866	4.296	4.725	5.155	5.584	6.014	34,000
36,000	5,270	14.64	3.699	3.930	4.392	3.414	3.841	4.268	4.695	5.122	5.548	5.975	36,000
38,000	5,770	15.18	3.679	3.909	4.369	3.393	3.817	4.241	4.665	5.089	5.513	5.937	38,000
40,000	6,290	15.73	3.659	3.888	4.345	3.371	3.792	4.214	4.635	5.056	5.478	5.899	40,000
42,000	6,830	16.26	3.639	3.867	4.321	3.350	3.770	4.187	4.606	5.024	5.443	5.862	42,000
44,000	7,390	16.80	3.619	3.845	4.298	3.328	3.744	4.160	4.576	4.992	5.408	5.824	44,000
46,000	7,970	17.33	3.599	3.824	4.274	3.307	3.720	4.134	4.547	4.960	5.374	5.787	46,000
48,000	8,570	17.85	3.579	3.803	4.250	3.286	3.697	4.108	4.518	4.929	5.340	5.751	48,000
50,000	9,190	18.38	3.559	3.782	4.227	3.265	3.673	4.081	4.489	4.897	5.305	5.713	50,000
200,000	93,190	46.50	2.450	2.603	2.909	2.140	2.408	2.675	2.943	3.210	3.478	3.745	200,000
300,000	161,190	53.70	2.167	2.302	2.573	1.852	2.084	2.315	2.547	2.838	3.010	3.241	300,000
400,000	232,190	58.05	1.996	2.121	2.369	1.678	1.888	2.098	2.307	2.517	2.627	2.937	400,000
500,000	303,190	60.64	1.892	2.010	2.247	1.574	1.771	1.968	2.165	2.362	2.558	2.755	500,000
750,000	483,190	64.43	1.741	1.850	2.068	1.423	1.601	1.779	1.955	2.134	2.312	2.490	750,000
1,000,000	663,190	66.32	1.666	1.770	1.978	1.347	1.516	1.684	1.852	2.021	2.189	2.358	1,000,000
2,500,000	1,758,190	70.33	1.506	1.601	1.794	1.187	1.335	1.484	1.632	1.780	1.929	2.077	2,500,000
5,000,000	3,583,190	71.66	1.453	1.544	1.706	1.133	1.265	1.417	1.559	1.700	1.842	1.984	5,000,000

larger sums are well worthy of attention. For example, if an investor has a net income of $30,000 from bonds he will have to pay a tax amounting to $3,330 (provided all include the 2% tax-free covenant clause) compared with $1,810 if he had preferred stocks, a saving of $1,520. In the case of an investor securing a $50,000 income the saving would amount to $2,720, and for a net income of $500,000 (not shown in the table) about $69,600.

Bond dealers have for some months been reporting a firm demand for tax-exempt issues, but there has been a rather limited call for the old-line issues, and even the taxable Liberties. As concerns the latter, their income is exempt from the normal tax, so that they are in the same position as preferred stocks, and for stipulated schedules this is the rate he is securing.

There need be little wonder then that large investors are shifting from taxable bonds into tax-exempt issues, among which there are plenty of excellent caliber returning 4.50% and even more. Viewing the matter over a long period of time, however, it is quite probable that holders of corporation bonds will eventually receive a higher rate of return on their taxable bonds and larger market appreciation.

Income Tax and Speculation

A great deal has been said in recent months about the effect of income tax rates on speculation in stocks, commodities, lands and real estate. The present revenue act permits persons to deduct speculative losses in arriving at liquidating the standard stocks upon which they have losses to write them off for income tax purposes. Heavy liquidation is stated to be also going on in the bond market for identical reasons. The plan is undoubtedly to take losses, but to repurchase later at about the selling prices. This liquidation will tend to give the market a "soft" tone for a few weeks, but may not necessarily determine its course, for the reaccumulation and the clearing of the many prevailing uncertainties may in spite of it, lead to a resumption in the upward movement.

It can not be denied that the high income taxes have and will continue to affect the market in a marked degree, but it must be added that the trend of prices will fundamentally be decided by other conditions.

How the Public's Money Comes Back to It

Showing What Happens to the Money You Put in the Bank, or Invest in Securities

VERY few of the millions of persons who are constantly putting their money in the banks or investing it in securities, in Wall Street or elsewhere, stop to figure out what becomes of the money. If they put it in the bank, they think of it as lying there waiting for them, since they know that they can draw it out when they wish. If they use it to buy bonds, they think of it as in the possession of the company which issued the bonds.

But of course their money cannot be idle, for idle money earns no interest. The bank puts all its deposits to profitable use, except a small part which it holds to meet current demands from those who want to withdraw it. The company which issues bonds does so because it sees profitable ways to use the money received for them.

When we speak of "money" in this connection, we do not of course mean the actual gold, silver, or paper currency. Most of your bank deposits, probably, are made in the form of checks, which are not "money" in the sense of currency but in the sense of a sort of fund which you can turn into currency when you want to. It is this money-fund which circulates as shown in the diagram.

Taking the word in this sense, *every cent of money which the public deposits in banks or invests in good securities comes back to the public.*

The diagram cannot, of course, show all the devious and complicated ways in which your money comes back to you. Your local bank, for example, may lend your money directly to your neighbor Jones, who places a mortgage on his farm. Then Jones buys a tractor with the money, and the company which sells him the tractor pays the money out in wages to build an addition to its factory. This returns the money to the public, of which you are one.

There are a million variations in the routes by which the public's money comes back to it; but the most important channels through which it passes are as shown in the illustration.

You sometimes hear a business man say, "That's where all the money goes—right down to Wall Street. No matter where it starts, that's where it ends."

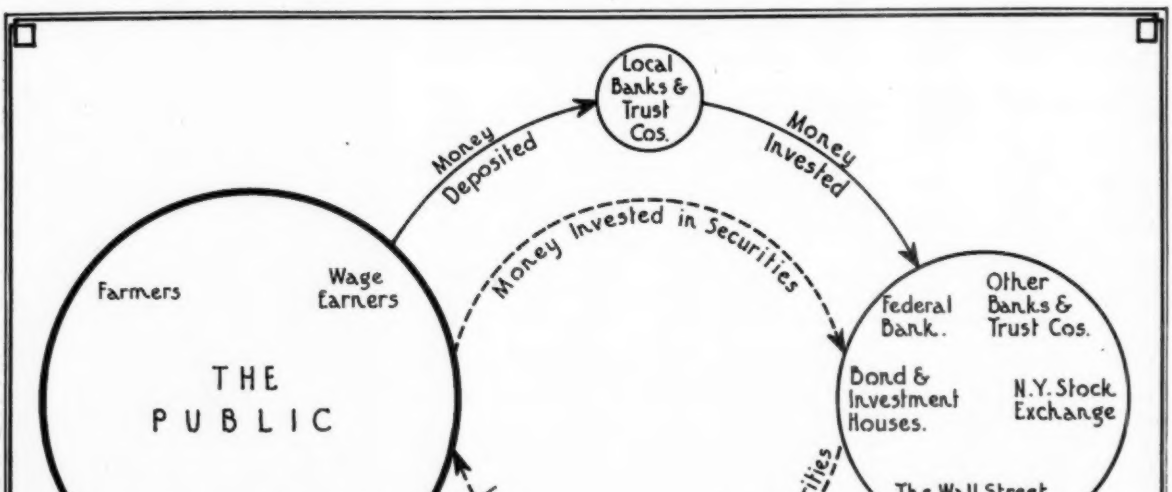
There is a phase of truth in this. But it would be equally true to say "That's where all the money comes from—Wall Street. No matter where it finally lands, it starts from Wall Street."

It is simply a case of "Waltz me around again, Willie, around, around, around." The public's money goes to Wall Street because Wall Street can put it to profitable use. But how? Not in Wall Street. Only a very small part of this country's surplus funds can be used in Wall Street for any length of time. To make this money earn interest, it must go to work—it must flow out into the industries of the country and "get busy." This it proceeds to do, through the channels shown on the chart.

If you have a thousand dollars in the bank, it isn't in the bank at all, unpleasant though that thought may be at first blush. What you have is not a thousand in the bank, but the right to draw a thousand out. Your thousand may be anywhere on the diagram—you have no means of knowing where.

Wall Street is like the heart. Money, the life-blood of commerce, flows into Wall Street, and Wall Street pumps it out again through thousands of arteries into every part of the business system.

You have heard some fairly intelligent people—or at any rate, otherwise intelligent—argue that money should be spent and thus "kept in circulation." But investing it or putting it in the bank really keeps it in circulation a great deal longer and to much better purpose.



·HOW·YOUR·MONEY·CIRCULATES·
·The·Route·By·Which·Your·Savings·Come·Back·To·You·

What Thinking Men are Saying

STOCK EXCHANGE SHOULD BE PLACED ON WEEKLY BASIS

Paul M. Warburg Asserts Change Would Relieve an Unsound Condition.

"As long as the banks all over the country dump their idle funds upon the Stock Exchange, treating these Stock Exchange loans and New York balances invested therein as their quickest and most important secondary reserve, just so long is the Stock Exchange in an unsound condition and just so long will it be impossible to secure for our country the benefits of a wide discount market and effective bank rates.

"As long as the Stock Exchange call loans retain their prominence as secondary reserves of too many banks and as long as Stock Exchange demands fix the call loan rate in the largest money center of the world, we shall not enjoy a complete and perfect banking system. Nobody will deny that for a machine moving as fast and involving as gigantic transactions as the New York Stock Exchange a change of system is a most difficult task. It is obvious that it should be undertaken only with the greatest possible precautions.

"But the difficulty should not scare us into inactivity and indefinite delay when we know that eventually the change has got to be made. When drastic banking reforms were first urged the most prominent bankers were opposed to them for the reason that they were prospering under the old system and because they said it would be impossible and dangerous to tinker with so immense and, at that time, so delicate a structure. None the less, the system was remodeled without any serious disturbance and those were proved to have been right who predicted to prosperous bankers that if they could prosper with an unsafe system they would be certain to enjoy an even greater prosperity with a safe banking system.

"At present our gold position is well protected by a trade balance so overwhelmingly in our favor. In the long run, however, our country will not be able safely to accomplish its new task of a world banker without the protection of an effective discount rate regulating a wide discount market.

"Our Stock Exchange must be protected from the vagaries of a daily fluctuating money supply; it should be placed on a basis of weekly or two-weekly settlements. Our bill market should be protected from the daily unsettlement caused by the increasing and decreasing demands of the Stock Exchange. The call money market ought to be based primarily on prime bills that can quickly be turned into cash balances, while the bulk of undigested stocks and bonds ought to be carried by time loans rather than call loans. We should be criminally negligent if we left anything undone that would tend to perfect as far as possible every cog in our financial machinery. The establishment of a world-wide discount market and its emancipation from the evil influences of an unscientifically organized call loan market is obviously a task still to be accomplished by us."

MELTING SILVER DOLLARS MAY BECOME PROFITABLE

George E. Roberts Discusses Possible Release of 90,000,000 Silver Dollars by Treasury.

"With silver bullion in the public market hovering about the coinage rate for dollars, with a possibility that the price may even go above the subsidiary rate, the situation is very interesting. There is no law against the melting of our coins, and if the market value of bullion should remain for some time above the coinage rate the coins undoubtedly would be melted.

From "Opinion" (London)

THE CAT THAT CAME BACK—WITH ANOTHER CAT!

"Whether silver will go higher or not depends mainly upon the general trade situation between the rest of the world and Asia, and particularly upon the prices of exports from China, India and the other countries using silver as money. The urgent demand at present is from China.

"In 1915 the normal movement of silver into India was interrupted by the German raiders in the Indian Ocean and the submarines in the Mediterranean and about the British Isles. The wants of India were largely supplied from 1914 to 1917 from stocks in China, and even in 1918 the shipments from China continued. These shipments reduced the stocks in China below normal and partially explain the extraordinary demands of China this year.

"The rise of silver has stimulated talk that there may be a return to the use of silver as standard metal, but that is improbable. A double standard of value is as inconvenient and illogical as a double standard of time. In the old years when the volume of international transactions was insignificant compared with what it is now, cables few, mails slow and arbitrage trading of little importance, the fluctuations of the two standards in relation to each other were of much less importance than they would be now. The business world strives for the highest possible degree of stability and accuracy in its transactions, and the single gold standard has demonstrated its superiority. For the present it is largely inoperative, but the confusion resulting shows its service more clearly. Every nation will want to get back to the old standard as quickly as possible. Early in 1918 there were about 568,000,000 silver dollars in the country, and as the Treasury reports for recent months show that this stock has been reduced to 308,000,000, it is apparent that about 260,000,000 were melted, which would produce about 200,000,000 fine ounces, and that the Treasury still has authority to melt and dispose of about 90,000,000 dollars.

"This unused authority is something to be considered in calculating the probable course of the market. If the Treasury should decide to release these 90,000,000 dollars or any considerable portion of them the action would give a check to the upward movement."

PRODUCTION IN THIS COUNTRY MUST BE INCREASED

Secretary Redfield Says Needs of the Nation Are Not Being Met—Selfish Ambitions the Cause.

"How has the admitted need for production been met by America? The question can only be answered one way—it has not been met. We have failed and are failing to do the one thing which all men know to be essential. We are not producing as we can and as we once did. With the facts fully before us we are refusing to face them and deal with them as they require.

"We seem reluctantly forced to admit that the stoppage of production was deliberate, undertaken at a time when production was vital to the nation in order that two separate relatively small groups, not unanimous among themselves, might have their own gains enhanced even through the nation's distress. It does not answer to say that employers might have yielded. Two wrongs never yet made one right."

BANKS CAN HANDLE FOREIGN TRADE FINANCING

Federal Reserve Board Says Foreign Countries Want American Capital for Industrial Reconstruction.

"It is apparent that our foreign trade is beginning to show the effects of lessened dependence upon Government support. The facts with regard to foreign demand seem to indicate that what is desired by other countries is not so much the mere maintenance of existing shipments, but an arrangement which will permit of the very great enlargement of the movement of

American goods to these countries. They are, in short, seeking to obtain capital for the reconstruction of their industries and the restoration of industrial prosperity in their territory. This is a matter quite different from the establishment of "credit" to enable current business to continue as between the United States and its foreign customers. On the latter point it would seem that the usual banking machinery is beginning to operate in a normal way, and that there is no reason to doubt its adequacy in practically caring for the demands which grow out of the actual current business of foreign countries.

"In the study of the whole financial situation, it is worthy of note that some of our strongest former competitors actually have not the resources to continue competing without injuring themselves and that the expansion of credit which exists here as the result of over-exportation is more than paralleled abroad. The question whether the continental countries will have the resolution to subject themselves to drastic taxation for the purpose of reducing their outstanding obligations is serious, and to the extent that a negative answer is given to this question a continuation of the inflation which now exists all over the world must be looked for. Such inflation can not go on indefinitely, but invariably brings its own retribution. After almost all foreign wars there has been a period of excessive prices, inflated credits and active trade, eventually followed by the collapse which is the result of the price and industrial disturbances naturally produced by such changes. Active trade under such circumstances is undoubtedly the economic expression of the need to replace destroyed commodities. In these circumstances the question of American trade with foreign countries and of the basis for such credits as we may extend, becomes an unusually important and essential one. Countries which have suffered from war naturally desire to restore at the earliest possible moment their productiveness and to put their industrial machinery into full operation. In order to bring about this result they naturally seek to employ every possible resource which they either possess or can obtain the use of from others."

HIGH MONEY RATES IMPROVE BANKING SITUATION

James B. Forgan, Chicago Banker, Says Stock Market Will Settle Down and Loans Contract Greatly.

"High money rates for call money and the advance in rediscount rates have improved the general banking and business situation appreciably. What was done both by the banks and by the Federal Reserve Board was for the purpose of bringing about a necessary contraction in lines of credits which had expanded to perilous magnitude. Banks, of course, have to be careful not to make the remedy so drastic as to bring on a dangerous collapse in the stock market values, but the remedy is needed and, I believe, will have a most beneficial effect. Things will settle down now in the stock market to a more rational basis. These loans will be greatly contracted and general business will benefit."

From the "News" (St. Joseph, Mo.)

THE ONLY KIND OF STRIKING NEEDED JUST NOW

SCHWAB SAYS REJECTION OF TREATY WILL NOT HURT

American People Must Learn Efficiency—Extravagance Natural After War.

"There never was such a riot of luxurious expenditures as at present. The people generally have adopted that spirit of 'Well, we make it and we might as well spend it.'

"Conditions just now are the natural aftermath of the war, although there are other forces contributing to the general situation. Inefficiency is the cause of lack of production, but it is not a case of inefficiency only on the part of labor, but on the part of the employer as well.

"We've all got to learn to be efficient. We've got to go through some sort of crisis before we realize just what this means. We cannot be a leader of nations and be inefficient. We startled the world with what we did in the war, but to keep our place in the world we've got to produce. We cannot do this and loaf. I don't think the labor crisis is big enough to produce the desired effect. It must be a greater crisis.

"The Senate's rejection of the Peace Treaty is not having much serious effect on business; it may have an effect on international business, but I believe it is history that hatreds have been forgotten when war ended and that business relations have been resumed as before. But I do think that the Senate might have stretched a point and ratified the treaty, if for nothing but national dignity. I believe that when the head of a great nation, the representative of that nation, makes a contract it ought to be sanctioned even thought it might not be just to our liking."

CURE FOR SPECULATION IS GROWTH OF PUBLIC OPINION

National Bank of Commerce Monthly Suggests Remedy for Speculative Inflation—Would Not Extend Further Credit.

Since the conclusion of hostilities a year ago, credit demands on banks have increased steadily. Since midsummer this increase has been rapid. This situation has resulted in part from the unusual volume of credit needed at prevailing high price levels to finance commercial enterprises and the marketing of crops. The lateness of certain crops, the slow movement of grain, strikes at ports and general industrial unrest have tended to increase both the duration and the volume of financial assistance required from banks.

"At the same time there had developed a vast amount of speculation—not in stocks alone, but in land, cotton, grain and in commodities generally over the whole country. The undue growth of this general spirit of speculation threatened a serious impairment of the country's credit position, and a point was approached where the further extension of the banking position to finance speculative activity became inexpedient. In the fact of this scarcity of funds, and in consequence of its own over-extended position, the stock market has undergone a severe liquidation.

"In view of the speculative spirit widespread over the country, the development of public sentiment against the undue extension of speculation and possibly further advances in Federal reserve discount rates may be necessary to restore normal conditions. It would seem to be clear that any permanent relief of the credit situation must come through a reduction in the demands for speculative purposes generally, rather than in a further extension of the supply of credit."

BANKS FINANCING CROP MOVEMENTS FOR FIRST TIME IN YEARS.

Demand for Funds for This Purpose One Cause of Recent Scarcity, Says Washington

"This is the first year in recent times that heavy autumnal merchandise and crop movement have been financed exclusively by the resources of American banks.

"Previous to 1914, it was customary for bankers to draw 6 and 9-day bills on European countries to the extent of $500,000,000 to $750,000,000, depending on conditions. As the cotton crop came forward and other agricultural products, merchandise exports furnished the exchange to liquidate the bankers' drafts on Europe. This discounting of American merchandise bills had been taken care of on a large scale previous to August, 1914, and much money for the 1914 crop movement had already been provided before the outbreak of the war. Emergency measures in 1914 took care of what had not been provided for by bankers' foreign drafts."

Japanese and Chinese Government Bonds

By GEORGE S. HAMMOND

THE entrance of the United States into the field of foreign investment upon a scale somewhat commensurate with our resources began with the flotation of the Anglo-French Loan in 1915. In fact, the purchase of that unique joint national obligation, half a billion dollars in amount, marks a sudden leap into a branch of financial operations in which our previous experience had been slender indeed. American banking houses had only participated in a small way with European firms in the flotation of a few Mexican issues in 1904 and 1913, and there was some interest in Argentines, Dominicans, etc.

It may appear rather strange then that in spite of our provincialism, the greatest interest and activity hitherto displayed in any foreign government bonds were in three issues of Japan—a nation of which relatively few Americans have any more intimate knowledge than that furnished by the Japanese variety of American musical comedy. All three of these loans are listed on the New York Stock Exchange. There is also an issue of the City of Tokyo and, to round out the Stock Exchange's modest collection of far eastern debts, a Chinese Railway Loan.

The Japanese Government Issues.

The first of the Japanese bonds to be sold here was the 4½% Sterling Loan dated March 26, 1905 and due February 15, 1925. At the time of issue, the Russo-Japanese War had not yet come to a close, but Port Arthur had surrendered the previous January, the Battle of Mukden (February 24th to March 12th) had ended in a Russian defeat, and that nation had obviously lost the War. The Japanese military achievements were much more glowing than was the state of her finances. The accumulated wealth of the nation was not large enough to bear the cost of the war, and resort was had to external borrowing. This loan was originally £30,000,000 in amount, of which £15,000,000 was placed in the United States through Kuhn, Loeb & Co., the National City Bank, and the National Bank of Commerce. The balance was sold in London. It is interesting to note that although the United States took one-half of the loan, the pound sterling, long supreme in international finance, took precedence as the form of currency to be named in the bond. It was provided, however, that both principal and interest were to be payable in New York at a fixed rate of \$4.87 to the pound. In dealing on the Stock Exchange \$5. is considered as equal to £1.

Notwithstanding the novelty of the security to American investors, it was an entire success for, at that time, capital was abundant and interest rates were extremely low. New York Central 3½s, for example, sold up to 100⅞ in the year 1905. The Japanese 4½s were offered at a price of 87¾, to yield about 5.50%. The then liberality of return led to their being snapped up very rapidly.

The bonds are secured by a first charge upon the net revenues derived from the Japanese Government Tobacco Monopoly, which includes complete control of all branches of production, manufacture and sale. The net profits have recently averaged about £6,000,000 annually, against a maximum interest charge on these bonds of £1,350,000. This charge is now considerably reduced, for £7,502,600, or one-fourth of the total issue, have been retired. In the slightly more than five years which the bonds still have to run, the amount will be further reduced.

In common with the general trend of the bond market, this issue, now selling at 82, (\$820 for £200) is much below its pre-war quotations. The yield to maturity is about 8%, and I think it is a safe assertion that in scarcely any other security can one find a similar return with an equal degree of safety.

FINANCIAL DISTRICT, SHANGHAI, CHINA
The Chinaman's well-known personal honesty imparts confidence in the security of his government's loans. Far Eastern issues merit attention, as this article shows.

Japan's Sound Financial Position.

Japan is perhaps the only belligerent nation except the United States which emerged from the war without impairment of its financial vitality. Japanese industry has been pushed to the limit to supply war needs. In 1913 the nation had imports and exports of $363,257,000 and $314,965,000 respectively. In 1918 the corresponding figures were $834,069,065 and $981,350,125, the former debit balance of trade being converted into a substantial credit balance. In the three years ended 1915, Japan had net exports of gold of about 55,000,000 yen (50 cents), but in 1916 and 1917 the net gold imports were about 313,000,000 yen, and the present gold reserve is about 2,000,000,000 yen.

The public debt amounted in 1918 to about $1,250,000,000 of which about one-half is external. There is no difficulty in carrying this debt, much of which is offset by productive assets, such as the government owned railroads and telegraphs. The tobacco, salt and camphor industries are government monopolies. These public undertakings produced a revenue of $187,500,000 in the 1918-1919 fiscal year. This is far in excess of interest requirements on the debt.

Japanese governmental finances are in very good shape—far better than they were when the 4½% Sterling Loan was brought out. Its safety, liberal return and satisfactory market record should strongly commend this issue to anyone seeking to add to the diversity of his investments.

Following the success of the offering made in March 1905, a Second Series 4½% Sterling Loan, due July 10, 1925, was brought out in July 1905. The amount was also £30,000,000 (since reduced by £6,482,920), but this time it was divided £10,000,000 each among New York, London, and seven German banks and bankers. Although secured by a charge second to that of the First Series upon the net revenues of the Tobacco Monopoly, the new bonds sold at the same price as the first ones, and to-day they command a price only about one point lower. As in the case of the First Series, it is provided in the bonds that principal and interest shall be paid as well in time of war as of peace, and whether the holder of the bonds be the subject of a friendly or a hostile state. Interest payments were not made in Germany, however, during the war. Coupons of the German stamped bonds are paid at the Yokohoma Specie Bank in New York, so that to the American investor there is no practical difference between the somewhat lower priced German stamped bonds and those unstamped.

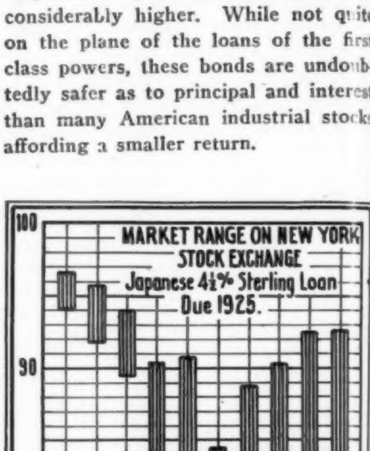
The peace treaty with Russia was signed in the summer of 1905, and in November a £25,000,000 4% Sterling Loan due January 1, 1931 was sold through New York, London, Paris, and Berlin bankers at a price of 87, or almost as much as the price of the earlier 4½s. Only about £3,250,000 came to this country originally. They are not secured in any way, but are practically just as safe as the bonds against which specific revenues are pledged. At the current quotation of 66½, the return is more than 8%. This issue has the advantage of somewhat longer duration than the others.

In 1912 the City of Tokyo sold £9,175,000 5% Sterling Bonds of 1952 in New York, London, and Paris, of which £2,000,000 was placed in New York. The proceeds were applied to the purchase of the electric lighting and tramway system, against the revenues of which they are a first charge. They are also a general charge upon all other city revenues. There is a cumulative sinking fund of 1% which began in 1916. These bonds may be bought at about 67, but unlike the other Japanese issues mentioned, interest is payable in dollars at the current rate of sterling exchange, so that the income therefrom is subject to changes in the exchange rate. At a rate of $4, the annual interest on a £200 bond is equivalent to $40, or a current return of about 6%. By purchasing this issue, one is enabled to secure an attractive long time speculation in London exchange as well as an adequate current return.

Chinese Loans.

China with its much less developed industry and its looser, less powerful government might not seem as satisfactory a field for the investment of American dollars as that presented by her progressive island neighbor. On the other hand, the Chinaman's well known personal honesty imparts confidence in the security of his government's loans. Added to that is the utter dependence of China upon foreign capital for the financing of government undertakings of any kind.

In 1911 the Chinese Government negotiated a loan of £6,000,000 in London, New York, Paris, and Berlin known as the Hu-Kuang Railways Sinking Fund 5s due 1951. The proceeds were applied to the construction of 1124 miles of government railways and for the retirement of the $2,222,000 Chinese Imperiod Loan of 1900. The bonds are secured by a first charge upon certain provincial revenues, about £693,000 per annum in amount. The net revenues of the railways are also applicable to the services of this loan. The £1,500,000 of the total issue which were placed in this country by J. P. Morgan & Co.; Kuhn, Loeb & Co.; the First National Bank; and the National City Bank sell on the Stock Exchange occasionally and are now quoted at about 57 ($570 for £200). The very low valuation is partially explained by the fact that these bonds, like the City of Tokyo 5s bear interest in pounds sterling, payable in New York only at the current rate of exchange. Even with the pound down to four dollars, the current income is about 7%. When exchange gets to normal again it will be nearly 9%, and the yield to maturity will be considerably higher. While not quite on the plane of the loans of the first class powers, these bonds are undoubtedly safer as to principal and interest than many American industrial stocks affording a smaller return.



In 1916 China borrowed $5,000,000 on a 6% Three Year Secured Note. This was purely an American loan and is notable as having been arranged, not in New York as has been the universal custom in operations of this character, but through the Continental & Commercial Trust and Savings Bank of Chicago. The price was 97½. On November 1, 1919 this issue came due and was replaced by a Two Year 6% Note due November 1, 1921, sold at 98½ to yield 7%, through the same bank. The Notes are secured by Goods Taxes derived from four Chinese provinces, estimated at 4,911,692 Chinese dollars, and also by a charge, subject to certain other charges, upon the Tobacco and Wine Public Sales Tax, estimated to net 14,514,992 Chinese dollars per annum.

These Notes are too short to appeal to the individual seeking a so-called "permanent investment," but they are adequately secured and afford a return making them quite attractive as a business reserve or other form of temporary investment.

A New Index of Corporation Credit in the United States

Fundamental Factors to be Considered in Using Bond Averages—Why This Index is Unique—Difficulties it Overcomes

THERE are a number of averages or index numbers showing the course of the American bond market. These indicate in a general way, though hardly a very accurate way, how bond prices are moving.

In compiling this index our object is to present an average whose level and changes will depict the conditions of corporation credit in the United States. Incidentally, the graph presented will show the course of high-grade railroad bonds. We expect to publish the graph every month.

Influences Determining Prices

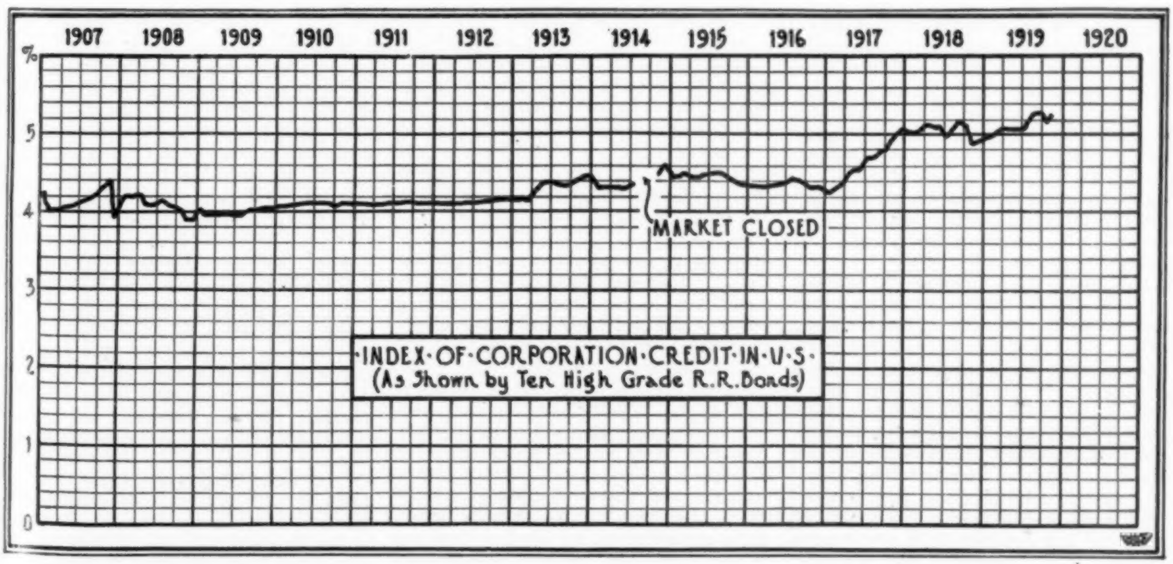
The two chief factors determining the course of bond prices are the general level of the "pure" interest rate—that is, how much a lender will demand for his capital when entrusted where there can be no question as to the safety of interest and principal; and the safety of the particular issues in question. In actuality, it is well-nigh impossible to invest any capital without involving some risk, but there are, of course, some approximations to this ideal condition.

Changes in either of these factors, or both, will cause fluctuations in the price of any bond. In the case of some issues, there is very little question as to the safety of their interest or principal, however, and their price changes are due almost entirely to variations in the level of interest rates. A good example of such an issue is the Central of New Jersey general 5s, due 1987, concerning whose interest and principal there can be little doubt, but which has nevertheless declined from about 125½ at the beginning of 1907 to a present price of around 101, on account of the rapid advance in interest rates.

Another factor of minor importance compared with the above two affecting bond prices is the time to elapse to maturity. Almost all bonds are paid off at par (100) at maturity. Hence as a bond approaches maturity, its price tends to par, unless the company is not in sound financial condition, quite regardless of any other consideration. The price changes caused by this factor is not so marked in bonds of longer maturity as in the shorter, but in any event we see how the mere passing of time affects bond prices. To present a bond average in terms of market prices is obviously then not of great value to accurately and intelligently interpret the course of the bond market, because changes in the price level may be due to variations in the measure by means of which we are endeavoring to study market fluctuations.

The way to get around this difficulty is to construct an average of "yields to maturity." This term may appear very technical to some readers, but can be very readily explained by an illustration. The Atchison general 4% bonds, due 1995, are now selling around 76, that is, 76% of its face value, or $760 for each $1,000 par value of the bonds. The investor receives $40 annually in interest, so that the annual rate of return would be around 5.30%, but since the bond is payable at 100, the investor would receive $240 additional by maturity. This amount must then be distributed over about seventy-five years, and would figure up to approximately .30% annually, making the so-called yield to maturity about 5.60%. The actual rate would be somewhat different than the above, due to various computations with compound interest, but the above reasoning illustrates the principle. If the general 4s sold at 124, a premium of 240, the approximately 3% would have to be deducted from the annual return.

Pursuing this method eliminates the factor of maturity in studying the course of the bond market, and leaves us only two, namely, changes in the general interest rate and in the safety of the interest and principal of the issues. We can eliminate the second of these groups of influences by selecting bonds of issuers whose financial condition has shown little or no change since January 1, 1907. This is done by taking bonds that have had a strictly high-grade rating during the entire period covered.



The above graph shows the changes in the interest return obtainable on high-grade investments. It is based on the yield (to maturity) of ten bonds which are so strongly secured that their price changes are due almost solely to changes in the general supply of capital as compared with the demand for capital. The graph is also an accurate index of the trend of high-grade bond prices reversed. That is, prices rise in proportion to the fall in interest yield, or fall in proportion to the rise in interest yield. Any average of bond prices (as distinguished from yields) is affected by the maturity dates of the bonds used. This element has been eliminated from the above graph in order to give an accurate reflection of the trend of the market for high-grade bonds.

Explanation of Our Index

The following bonds have been selected:

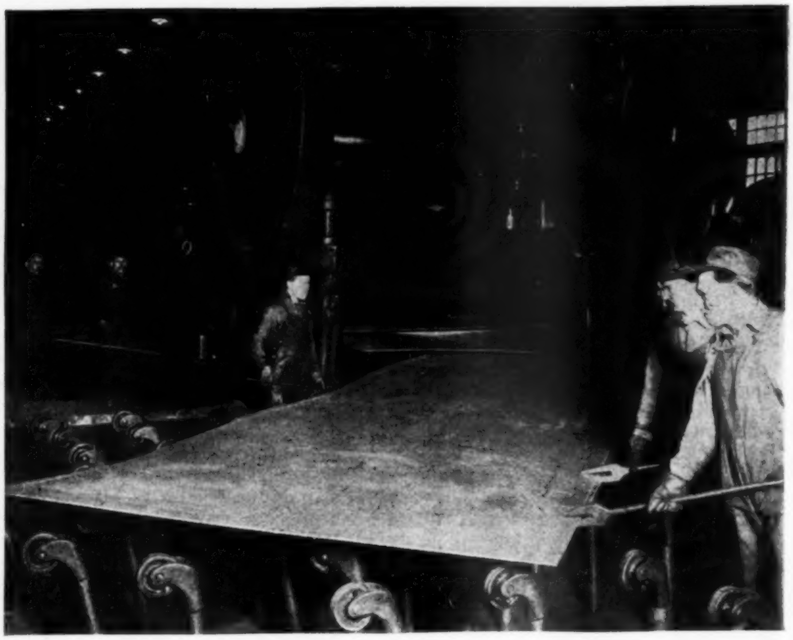
Issues	Maturity
Atchison General 4s	1995
Central Railroad of N. J. General 5s	1987
Chicago & Northwestern General 3½s	1987
Louisville & Nashville Unified 4s	1940
Northern Pacific Prior Lien 4s	1997
Pennsylvania Co. Guaranteed 4½s	1921
Southern Pacific First Refunding 4s	1955
Southern Railway First Consolidated 5s	1994
Union Pacific First Land Grant 4s	1947
West Shore First Guaranteed 4s	2361

The selection has been restricted to railway bonds because it is almost impossible to secure industrial and public utility bonds whose prices have not been affected in some marked degree by changes in the financial conditions of their issuers since January 1, 1907. The railroad issues chosen contain representative examples of roads in all sections of the country, and it is believed that the average will be representative as an index of corporation credit in the United States.

The graph presented herewith gives the monthly average of the yields to maturity of the ten bonds enumerated. The method pursued is to strike the average of the high and low prices of each bond for each month, compute the yield to maturity for each issue and then take the average of these ten figures. The trend of the graph does not then depict directly the course of the bond market, though it does indirectly.

We have already explained what is meant by the term "yield to maturity." It is obvious, of course, that when the average yield to maturity advances, the average price declines, and vice-versa, when the yield to maturity declines, prices advance. Exactly how much any change in the average rate to maturity will mean in price can not be readily determined, but the general statement that the trend of bond prices is the reverse of the trend of their yields to maturity is an absolute rule, and the larger the change in the average rate to maturity the larger the change in prices.

To sum up, the index we have constructed shows the trend of corporation credit by months since January, 1907. This is done by selecting ten railroad bonds whose issuers have undergone very little change in financial condition since that date, and computing the monthly average of their yields to maturity. By using yields in place of prices we eliminate the factor of maturity as affecting bond prices and by selecting bonds whose safety of principal and interest have never been in doubt since January 1, 1907, we have eliminated in very large measure the influence of varying safety on prices. This leaves us then only changes in the interest rate to affect prices, and consequently the trend of the graph furnishes a fairly accurate index of corporation credit in the United States.



BETHLEHEM STEEL IS STRONG
The enormous earnings of the company have enabled it to acquire great resources in spite of its liberal dividends. The photograph shows plate steel being cut in a Bethlehem plant.

Asset Values a Guide to Dividend Action

How Industrial Concerns Have Built Up Large Equities Behind Their Common Stocks Since the War Period—Available Assets as an Index to Possible Stock or Extra Cash Dividends

By JAMES GARRISON

WHICH corporations will pay extra cash or stock dividends, provided that the legal uncertainties as to the taxability of stock dividends are cleared away? A study of the accompanying figures may shed some light on that very interesting question.

During the war, for most industrial corporations, orders flowed in freely, advancing costs of material and wages were more than made up for by advancing prices of finished products, and earnings, as a general rule, were prevailingly higher than in the preceding years. The disposition of these earnings varied considerably, according to the more or less conservative temper of the boards of directors controlling the financial destinies of the different concerns.

Some paid liberal dividends, skimped depreciation and replacement expenditures, and while making a great temporary splurge, did not leave themselves remarkably better off for the future. Others maintained the old dividend rates, or else declared comparatively small extras, spent considerable money on new construction, improvements, and replacements, and fortified their financial position by building up a substantial working capital.

Now the pressure of war work is over, and there is consequently more competition for the peace-time business remaining. Most of the stress of readjustment is now over, too, and many corporations now feel that they can afford to relax their stringent financial policies, and release for the benefit of their stockholders some of the funds tied up by war time needs or post-armistice uncertainties.

Other things being equal, of course, the corporation which has the largest net liquid assets, or working capital, or the largest amount of cash, Liberty bonds, and other investment securities in the treasury available for disbursement, will be the most likely to pay out extra dividends, whether in stock or in cash. But, of course. "other things" are not equal. Some directing boards are more conservative than others; some industries require large amounts of working capital, such as the railway equipment business, for instance, where considerable time elapses between the receipt of an order and its delivery, while in the shipping business, on the other hand, income flows in to the company in a more or less steady stream all the year round.

Factors Involved

In considering the figures for working capital given below, where they are much above those for cash and investments, proportionately more of the latter can be released for disbursements, as the difference between the two in the form of inventories, notes and accounts receivable, and prepayments, may supply the company with sufficient working capital for its needs, while where the cash items preponderate the company might have difficulty if it should disburse a large part of them.

While gross income has increased between 1914 and 1918 in practically every case, it is not an accurate index of the growth of a corporation, as prices have advanced, and a bigger amount of gross revenue may be shown on the same margin of profits and the same volume of business. A comparison of actual number of items handled, such as tonnage of steel sold, or number of tires, or barrels of oil, would be more significant, but is difficult to obtain in most cases, and besides the units involved are not commensurable.

In estimating the probability that any given corporation will declare an extra dividend in stock or cash, the policy of the company in the past must also be considered. Standard Oil companies, for instance, have been noted for their policy of issuing new stock to holders at par while the price was well above that level, and Bethlehem Steel has declared a considerable amount of extra cash dividends.

The position of the company in its industry, too, must be considered, as well as the status of the industry. For example, in view of the great and growing expansion of the tire industry, under ordinary conditions a tire company would prefer to conserve its cash resources for new construction rather than distribute it to stockholders, unless of course it has a bigger cash surplus on hand than it can use.

It is also true that when an industry is in a dull or unsettled condition, corporations engaged in it will be in all probability very cautious about distributing their cash assets, while when it is going strong, making profits and has prospects of considerable new business ahead extras are likely to be declared.

At the present time most corporations which have intentions of distributing their liquid resources are marking time pending the verdict of the Supreme Court on the question of whether stock dividends are taxable. Should they be declared taxable on the ground that they are equivalent to a distribution of cash, it would tend to discourage the issue of stock dividends, particularly in corporations the majority of whose stock is held in large blocks by wealthy men. If the Supreme Court should decide, however, that the issue of new stock certificates did not involve the creation of new values, it is likely that many corporations which have more working capital than they need will capitalize some of it by turning it into stock.

In view of the varying and to some extent incalculable conditions stated above which affect the probability of extra or cash dividends, the following comments on a few of the corporations listed aim not to forecast the action of the companies but to supply facts and indications on which the reader may form his own opinion.

AMERICAN WOOLEN—As will be seen by reference to the table, American Woolen has made an exceptionally good showing as far as working capital and resources go, though it has to a large extent discounted these favorable figures by extra disbursements of 15% earlier this year, in Liberty bonds. The industry is prospering, and expects a boom period to extend far ahead, so that a continuation of its liberal extra dividend policy is by no means impossible.

GENERAL CHEMICAL—The financial position of General Chemical is in all probability considerably better than it was at the time of the last balance-sheet, at the end of 1918. Officials of the company have definitely stated that they intend to take action of some sort on an extra dividend as soon as the Supreme Court hands down its verdict on the taxability of stock dividends. The present equipment of the company is apparently sufficient to take care of all the chemical business that is expected to come to it, as it built up its plants during the war and had little difficulty with adjustment to peace conditions.

GROWTH IN ASSETS OF CORPORATIONS, 1914—1918

Corporation	Gross Income, 1914	Gross Income, 1918	Working Capital ($ per share)	Pres. Cash Surplus (incl. Liberty Bonds and other Investments in $ per share)	Earning "Plowed In" Dec. 31, 1914—Dec. 31, 1918 ($ per share)
Allis-Chalmers	$1,101,976	$11,691,803	$76.40	$25.86	$46.24
American Can	5,807,802	17,076,335	69.10	10.42	37.92
Am. Car & Foundry...	5,810,889	16,461,823	123.71	166.55	72.84
Amer. Smelt & Ref. ..	12,825,530	18,311,568	75.20	33.70	49.80
Amer. Steel Foundries	406,047	4,015,825	61.10	11.08	50.93
Amer. Woolen	2,788,602	12,324,084	269.56	160.98	35.80
Baldwin Loco.........	320,609	17,856,797	123.16	§54.85	§§69.50
Bethlehem Steel	9,649,668	57,188,769	134.70	113.10	135.39
Central Leather	6,715,131	8,319,642	210.10	26.20	56.55
General Chemical	2,947,898	9,970,260	68.10	11.51	71.82
General Motors	*7,819,968	14,825,530	84.00	40.40	46.88
Goodrich, B. F........	6,137,297	21,610,323	71.71	20.21	55.52
Goodyear Tire & Rub.	3,391,165	15,388,191	268.10	56.10	146.44
Internat'l Merc. Marine	3,310,585	12,428,789	79.60	98.90	¶¶87.12
Inter. Paper	3,088,897	8,194,885	82.20	32.82	78.32
Lackawanna Steel	1,581,379	23,418,905	69.85	39.37	79.76
Midvale Steel	†37,606,018	52,036,939	45.51	23.51	36.48
N. Y. Air Brake......	821,046	2,232,552	49.23	39.96	63.27
Railway Steel Spring..	713,285	3,519,020	78.60	50.90	59.59
Republic Iron & Steel	2,407,552	18,906,814	105.30	65.60	106.99
Standard Oil of Ky....	704,376	1,463,948	70.88	55.48	168.42
Studebaker Corp.	5,345,395	4,179,879	50.71	10.34	47.43
Underwood Typewriter	892,644	4,230,753	105.26	61.29	48.73
U. S. Food Products**	1,494,766	10,514,810	55.50	47.60	49.69
U. S. Industrial Alcohol	1,069,602	14,073,102	4.11	24.43	93.35
U. S. Rubber	12,088,469	45,804,139	141.05	26.15	82.70
U. S. Steel	71,663,615	199,350,680	108.01	88.89	75.23
Wilson & Co.	†5,710,358	8,563,911	215.93	44.22	93.39
Worthington Pump ..	††2,143,809	7,630,686	146.20	40.87	47.86

*General Motors of New Jersey.
†For 1916, first full year.
**Formerly Distilling Securities Corp.
††Nine mos. ended 1916, first report.
¶Includes sinking and reserve fund assets.
§Includes $37,708,456 securities pledged as collateral.
§§Not including earnings of Standard Steel Works.
¶¶On basis of preferred stock.

BETHLEHEM STEEL—"Bessie" is in a strong cash position still, in spite of 2% extra disbursements on both classes of common stock this year, and heavier ones during the war period. The dividend policy of the company has been a generous one in the past, but enormous earnings have enabled it to accumulate strong resources notwithstanding. One unfavorable factor, however, is the uncertain position of the steel industry at the present time, and dullness due to difficulty in filling orders.

GOODYEAR TIRE AND RUBBER—This company has made a splendid earnings record within the past few years, and is looking forward to a boom in the tire business for some time to come. The stock is not active in the New York market, but we believe has good possibilities that have been overlooked. Goodyear did not pay any extras either this year or last, though its regular rate is fairly high, at 12%.

INTERNATIONAL MERCANTILE MARINE—Marine has about completed its readjustment from war conditions, and

in view of present conditions in the shipbuilding industry is likely to confine operations to its present fleet. American shipping is, however, encountering severe competition from foreign countries, particularly England, and further dividend action on the preferred may be postponed until a state of equilibrium is reached in the shipping industry.

REPUBLIC IRON & STEEL—Earnings "plowed in" by Republic have been over $100 a share since the end of 1914, and the company has made itself one of the larger producers. Dividend disbursements were begun in 1917 and have since continued at the modest rate of $6 a share annually, so that an increase would be by no means startling. However, steel is dull at the present time and the policy of the company has always been highly conservative.

STANDARD OIL OF KENTUCKY—Standard Oil companies have been noted for their liberal dividend policies almost as much as for strong and sustained earning power, and Standard Oil of Kentucky has been no exception. The high price of the stock, selling sowewhat below $500 a share, discounts these possibilities to some extent, but the oil industry in the opinion of many is still to see its best days, and liberality on the part of Standard Oil directors is in all probability justified, particularly as the oil business is one where both income and outgo are fairly constant, not necessitating the keeping on hand of a large amount of working capital, except where new construction for refineries or the like, or the acquisition of new fields, is carried out.

UNDERWOOD TYPEWRITER—This company has had its share of war prosperity, and with the peace period finds itself engaged in a highly competitive industry, responding in a high degree to the ups and downs of business prosperity for the country as a whole. It is not probable that considerable new construction will be required, and the industry will probably eventually revert to its prewar status.

U. S. STEEL—"Steel" has accumulated huge assets and cash resources per share, in spite of its enormous capitalization. The company is extremely conservative, and it is more than likely that "hidden assets" in the form of unusually heavy depreciation and replacement accounts make the real strength of the company greater than appears on the balance sheets. In view of its great stock issues outstanding, it is scarcely likely that Steel will declare a stock dividend, and it is relying at the present time upon its strong cash position to pull it through labor troubles and industrial dullness. The company has a large amount of Liberty bonds in the treasury, however, and a distribution of these among the stockholders, following the example of a number of corporations which subscribed heavily to the various Liberty Loans during the war, is not improbable.

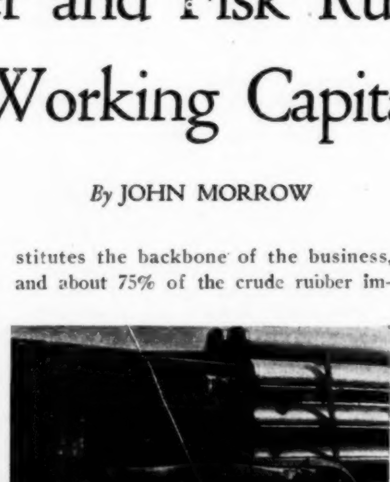
WORTHINGTON PUMP—This company is engaged in the manufacture of heavy machinery, a business requiring a comparatively large working capital. If foreign exchange conditions should be stabilized, permitting of the export of the company's products on a larger scale than hitherto, and if production should increase in this country to any large extent, the company might find its funds tied up in new construction or long-term contracts, although its net current assets are unusually large.

U. S. Rubber and Fisk Rubber Pile Up Working Capital

By JOHN MORROW

IT would almost seem as if the population of the United States were divided into two parts, automobile owners and those who hope to be. Crowded highways on a pleasant Sunday, and the ever increasing stream of motor trucks at all times, have direct influence upon the thoughts of Wall Street, and of the investing and trading public generally. All of this year the motor stocks have been eagerly purchased, and for the most part have made good all expectations. Connected closely with the great prosperity of the motor makers has been the eminently satisfactory business done by the manufacturers of automobile tires. This prosperity in the motor and affiliated industries is something the public can vizualize and easily comprehend. No statistics, trade reports nor complicated analyses are necessary to awaken interest. One look at the highways is enough.

While the leading rubber companies do not confine their outputs exclusively to automobile tires, that product constitutes the backbone of the business, and about 75% of the crude rubber importations are used in the motor industry. Before the war rubber stocks were not especially prominent either as investment or speculative mediums. But now the old established companies have brought themselves before the public eye, and many new concerns have been brought out to attract investment and trading funds. The most prominent of the rubber manufacturers is the United States Rubber Co. whose common stock rose from 73 to above 139, a rise that was based upon expectations since realized. Another company, newer and smaller than U. S. Rubber, which has been forging fast ahead, and developing a business of the most respectable proportions is the Fisk Rubber Co.



ARRIVING AT NEW YORK
This shows crude rubber being weighed after being unloaded at the water front.

Crude Rubber a "Cheap" Commodity

In any consideration of the position of the manufacturers of tires and rubber goods some knowledge of the rather remarkable statistical position of crude rubber is essential. It may be recalled that a few years prior to the war there was a great rubber boom

in England with the accompanying feature of the formation of many crude rubber companies to develop the production of that commodity. The boom in the shares of the crude rubber companies collapsed, but it influenced the world's production of crude rubber to a point where supply became plentiful and easily equal to consumptive demands.

Great increases in the prices of raw materials and finished products are so common that an exception stands out boldly enough to almost challenge belief. Yet the leading tire makers of the United States found it possible to announce a reduction in tire prices early in the current year, and have not made any later attempts to increase prices. If the price of crude rubber were overlooked it might be argued that tire companies were depending on an increased output to offset a smaller profit margin. But the average prices of crude rubber as imported are 20% less than they were in 1914, and even somewhat under the level of 1918. This, too, in face of restriction in output during 1918 owing to war necessities, and in spite of the unsatisfactory, from a shipper's standpoint, supply of ocean tonnage, and high freight rates.

U. S. RUBBER

Price Range of Common

	High	Low
1913	69½	51
1914	63	44½
1915	74¾	44
1916	70¾	47¾
1917	67	45
1918	80½	51
1919*	139¼	73

*To Dec. 1.

All elements of cost are not as satisfactory as crude rubber. Cotton fabric is an important component in the making of tires, and various chemicals also enter in. Anyone who has casually even followed the trend of commodities prices knows what has happened in the case of cotton.

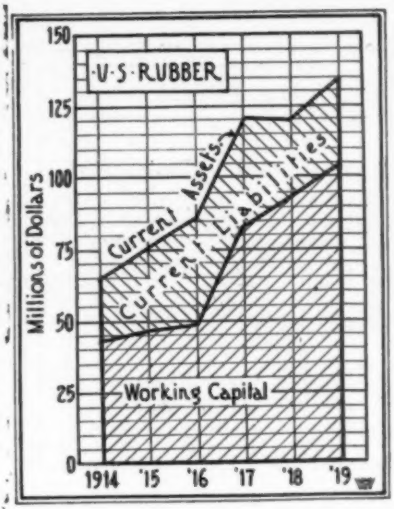
U. S. RUBBER

Year Dec. 31	Net Sales	Net Income	$ Per Share on Com.
1914	$83,678,812	$8,091,538	$9.18
1915	92,861,016	8,696,089	10.80
1916	126,759,129	11,226,208	17.75
1917	176,159,694	15,340,577	28.82
1918	215,398,425	16,072,041	30.85

In sum the manufacturing and selling positions of the rubber companies are excellent. Crude rubber in the opinion of the trade is not likely to advance, and the costs of cotton, chemicals and labor would seem to be at or near the peak. The volume of business is at record totals, and the profit margin is at most satisfactory proportions.

U. S. Rubber

U. S. Rubber common stock has been the big "play" this year in the tire and rubber securities. Back in 1915 business conditions were such that it became necessary to suspend dividends on the junior shares and payments were not resumed until October of this year. In that period the corporation has had a remarkable record, as a result of which the common stock has gained a more confident following than perhaps at any time in its history.



From 1915 to 1919, business grew apace, readjustment of fixed debt was made, an important change in executive personnel occurred, and staunch equities were built up in back of the share capitalization. The result was the resumption of common stock dividends at the annual rate of $8 and substantial rights accrued to stockholders through the subscription offer of additional common stock. Both of these developments had been awaited nd the expectation of both was largely responsible for the flight of the stock from 73 to 138⅝, an advance which began in February and culminated in June. Since June each succeeding month has seen the common above 130. In the crumble of prices in November the low point was 112¼.

So far as earnings are concerned, the directors were quite conservative in the resumption of dividends. In the three years to December 31, 1918, over $76 a share was earned on the common stock and in the six months to June 30, 1919, surplus for the junior shares, after all expenses including reserve for Federal taxes, was $23.04; so that in the three and one-half years practically $100 was earned on the common stock and not one cent paid out in dividends.

As of June 30, 1919, working capital was $104,228,896, against $47,572,459 as of December 31, 1915, three and one-half years before. As of June 30, 1919, the profit and loss surplus of $50,133,000 was equal to $131 a share on the 360,000 shares of common stock then outstanding, as compared with $63 a share on December 31, 1915.

In the three and one-half years the bonded debt showed an increase of over 100%, amounting from $30,219,000 to $67,807,000. The sale of $59,000,000 First and Refunding 5s, 1947, early in 1917 was mainly responsible for the change in funded debt. This issue was underwritten by the Kuhn, Loeb & Company, and marked the entrance of that powerful firm's influence in the fiscal policy of the corporation.

In brief, the foregoing represented the business and financial development of the past three years and a half when directors took action on resuming divi-

TAPPING A RUBBER TREE IN MEXICO

Crude rubber is produced in many parts of the world, and in such quantities that its price is lower than it was in 1914. This photograph was taken on the Tehuantepec peninsula.

dends and decided to offer additional stock for subscription at par. Since 1913 the amount of common shares outstanding had remained stationary at 360,000 shares of a par value of $100 a share. This total was doubled and shareholders offered the privilege of subscribing share for share at $100 a share. The sale of stock brought the company almost $36,000,000 in new money, and put it in funds to care for projected improvements, which include the expenditure of $10,000,000 at Detroit and elsewhere, and called for the continued development of the crude rubber plantations in Sumatra.

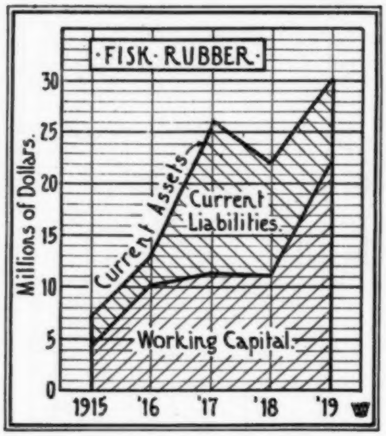
It will take $5,760,000 to pay $8 a year in dividends on $72,000,000 common stock. The company earned slightly over $8,250,000 for the common in the first half of 1919 and if $15,000,000 were earned for the full year, it would be equivalent to between $20 and $21 a share on the 720,000 shares of common stock. This estimate is made merely to give some idea of the position of the stock with the full amount outstanding. The new common shares will not be fully issued until January, 1920, when the last subscription instalment is due.

Larger Distribution Possible

In connection with the sale of stock and the resumption of dividends, there was an official intimation of additional distribution either in stock or in cash in 1920, if all were well with the business situation. The sale of 360,000 shares of common stock was not exactly a capitalization of surplus earnings accrued during the years of prosperity. As an offset to the increased capital liability of $36,000,000 stock, cash assets increased practically the same amount. Nor may it be fairly said that the U. S. Rubber with $72,000,000 common stock is not conservatively capitalized, considering the volume of business and the spread of corporate activities. While the motor industry may be almost at peak now, and may not indefinitely have the present crush of business, it is more fundamental and of far greater permanent size and importance than it was three or four years ago. Thus, the doubling of the common shares of U. S. Rubber does not appear in any way to be an attempt to catch favor in a period of temporary prosperity.

Of course, there are other sides to the manufacture of rubber goods than the making of tires. But the latter constitutes such an important part of the business that changes in their demand and consumption would be certain to effect directly and importantly the revenues of a corporation like U. S. Rubber.

To return briefly to the question of raw materials, it is noteworthy that U. S. Rubber is the only one of the important American rubber manufacturers who control any part of the source of crude rubber supply. The company owns 93,000 acres of land in Sumatra. In 1918 eight million pounds of crude rubber were imported and it is expected that twelve million pounds will be brought in during 1919. In five years or so it is hoped to have 40% of the crude rubber requirements come from those lands.

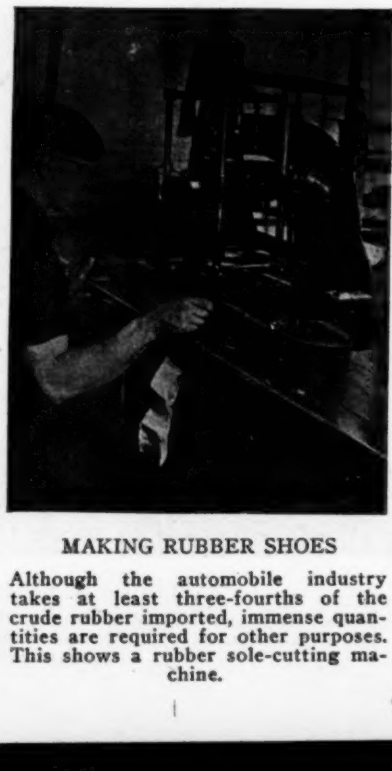


As far back as 1914 the U. S. Rubber Export Company, Ltd., was organized to care for the export trade of the parent company and in the summer of the present year the U. S. Rubber Company was organized to extend business in the Dominion. These details are given to indicate the preparedness of the corporation to keep abreast of developments in the industry and to be in a position to take advantage of opportunities both domestic and foreign.

Position of Securities

When the First and Refunding 5s, 1947, were sold in the early part of 1917, their absorption was slow. The bonds now are an active issue, comparatively well-known and secure in their position. Ahead of them is an issue of $6,000,000 7% secured notes, due 1923, and this issue may be given recommendation as a short-term investment commitment.

The investment position of the First and Refunding 5s has substantially improved since their issuance and they are now entitled to a sound rating and still have possibilities of price appreciation when fixed incomes come to represent a greater purchase or exchange power than they do at present. The bonds are selling at present to yield about 6%.



MAKING RUBBER SHOES

Although the automobile industry takes at least three-fourths of the crude rubber imported, immense quantities are required for other purposes. This shows a rubber sole-cutting machine.

Following the funded debt comes the issue of $63,000,000 8% non-cumulative preferred, upon which dividends have been regularly paid since 1904. The non-cumulative feature of the issue is the only factor which would at all handicap the investment position of the stock, but it is the writer's opinion that that should not be considered a real handicap. The dividends are extremely well protected by earnings. The stock may be bought to yield 7% and is to be recommended.

Prior to the issuance of additional shares the relatively small floating supply of the common stock resulted in wide moves on a comparative turnover. After the November break the shares showed a relatively good rallying power and indicate that they have not lost popular appeal. The common stock is not an investment issue. It appears to be a good speculative purchase on recessions but at the same time one which needs careful watching, as its moves are liable to be wide.

Fisk Rubber Co.

While the Fisk Rubber Co. is a newcomer, at least in so far as public interest in its securities is concerned, the corporation is one of the five largest makers of automobile tires in the country, and is to be reckoned with as an important factor in the industry. For the past five years Fisk has been extremely busy developing its organization, and seeking ways and means to keep liquid resources at a point where they could sufficiently cope with the expanding volume of trade. An inkling of the progress made may be gleaned from the fact that whereas net sales in 1913 were only $9,251,000, they had risen to over $36,000,000 in 1918. Naturally such a rapid gain in business has necessitated a careful conservation of current resources. The company has suffered from all the familiar symptoms of corporate growing pains, and this summer it was expedient to raise new money which was done through the sale of preferred stock.

At the same time an adjustment in the share capitalization was made. In order to obtain some gauge for measuring the company's position and outlook, it becomes necessary to understand this adjustment and the accompanying financing. The first step was to authorize the reduction of the par value of the common stock from $100 to $25, and to exchange the outstanding shares on a four for one basis.

Then in the early summer of 1919 the sale of $15,000,000 7% cumulative preferred stock was effected. This stock was offered to the public at par, or $100 a share. At the same time $2,500,000 7% convertible second preferred was sold at $135 a share. The conversion privilege attached to these

shares was the feature justifying the relatively high offering price.

Prior to the sale of these two blocks of preferred stocks, Fisk had two issues of first preferred stocks and an issue of second preferred ahead of the common, which was rather an awkward share capitalization structure. This is now simplified, and the table will show the capitalization before and after the adjustment. The present totals of the stocks now outstanding are taken from the company's balance sheet as of September 30, 1919. Through the sale of the preferred stocks the then outstanding first convertible preferred shares were retired, and the company furnished with additional working capital and funds to carry out its projected expansion of plant facilities.

FISK RUBBER

Capitalization Before and After Adjusactment

7% Conv.		
1st Pfd.........	$14,500,000	$3,629,900
7% Conv.		
1st Pfd.........	....	5,000,000
7% Conv.		
2d Pfd..........	4,904,500	4,500.000
Common	10,859,500	8,000,000
Total	$30,264,000	$21,129,900

In the nine months of the current year to September 30, net profit before taxes was $4,199,399, and after deductions for preferred dividends for the period, and allowance for Federal taxes, the balance indicated earnings of not quite $6 a share on the 434,380 shares of common stock outstanding as of September 30. The company has not had the benefit of the new money all through the year, nor has it had the use of new facilities which are under construction. What Fisk has done in the way of increasing business is indicated in the graph, which outlines total income and net profits over a series of years.

Question of Dividends

Lately there has been some expectation that perhaps directors would come to a consideration of dividends upon the common stock at the end of this year. It is argued that working capital has been bolstered, that the outlook for the tire business is excellent, and that the company for the past five years has devoted all of surplus earnings to property improvements, thus paving the way for the payment of a conservative dividend upon the junior shares.

In the meanwhile the company is busy constructing new units at the plant at Chicopee Falls, Massachusetts, where the manufacturing activities are centered. This plant had a capacity of 9,000 tires a day, and this is on the increase. In addition, Fisk controls the Federal Rubber Co. with a plant at Cudahy, Wisconsin, and the Gibney Tire Co. which makes solid tires at Conshohocken, Penn. Incidentally the stock of the Federal Rubber Co. is carried by Fisk on its balance sheet at the nominal valuation of $1, and it has been figured that the holdings have a book value of at least $750.000.

Fisk controls 125 branch stores throughout the country, and 80% of its product is sold directly to dealers.

Conclusions

The preferred stocks of Fisk do not command an active market, and it might be said that perhaps the $15,000,000 7% first preferred has not been completely absorbed by the ultimate investor. This stock, while not as seasoned as many of the older industrials, is, however, to be seriously considered by the investor, and it appears to be an issue which should improve its investment basis, but its market price second preferred is not selling on an vestment position. The 7% convertible is largely determined by the fluctuations in the common. Each share of the second preferred is convertible into four shares of common of a par value of $25. Dividends on both of the preferred issues appear well protected.

FISK RUBBER

	Net Sales	Net Profits	Surplus After Pfd. Divs.
1913......	$9,251,585	$606,000	$202,479
1914......	10,857,324	942,204	432,204
1915......	16,203,284	1,791,579	1,287,538
1916......	19,457,788	1,836,830	1,293,705
1917......	29,916,681	3,578,485	*2,055,722
1918......	36,682,168	3,760,279	*1,560,103

***After allowance for Federal Taxes.**

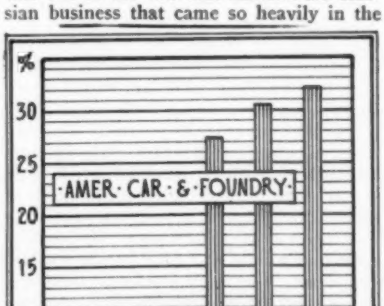
Only since August has the common stock been traded in upon the New York Stock Exchange, and in that time it has sold as high as 55, and has broken slightly below 40. At the present writing it is near its low price. Before coming on the Exchange the common had a range of from 29 to 39 on the Curb. Taking into consideration the known factors affecting the tire industry, and the fast pace of the Fisk Co., it would appear as if the common were an issue with good possibilities, and a stock in which the investor might reasonably consider placing some part of his available speculative funds.

American Car & Foundry in Strong Position

How Assets Were Built Up During the Big Earning Period —Growth of Working Capital Almost Phenomenal— Looking Forward to the New Railroad Era

THE advocates of conservatism in the conduct of corporation affairs find a striking support of their views in the history within recent years of American Car & Foundry. Since its organization in 1899 this company had gone along with very small dividend disbursements on the common, in no case before the war more than 3%, though earnings might seem to some to justify a higher rate; with large expenditures for improvements and maintenance, and heavy reserves for depreciation, so as to keep the plants in the best condition for unexpected emergencies.

Such an emergency came when the war broke out. Within a short time the management had made the necessary readjustments, and instead of making railway cars, axles and journal bearings, had turned to the manufacture of shells, gun-carriages, caissons, shell forgings, truck bodies, helmets, boilers and others of the diversified needs of war. The company was one of the few that handled the Russian business that came so heavily in the early years of the war in such a way as to make any substantial profit on it.



With the sudden coming of peace the company was assailed by a great flood of cancellations and suspensions of contracts, while at the same time it faced the necessity of remodelling its physical equipment so as to take care of the normal peace business; all this in the midst of the greatest uncertainty as to the volume of business it could transact with the railroads at home under Federal control, and with the foreign demand a highly unreliable entity, as it remains at this writing.

Here again the conservatism of the company's policy of keeping its plants always in the best condition and ready for any eventuality showed its value. The strenuous times of readjustment are past, it is safe to say, as far as the corporation is concerned, and its new problems will be those of handling new business, financing credits and the like. During the fiscal year 1919, though domestic business was slow, railroad policy undecided, and foreign business hard to get because of the heavy handicap that exchange premiums imposed and because of the unsettled conditions in Europe, the company managed to pull through in fairly good shape, helped somewhat by contracts for repair work on old locomotives.

The strength of the company was shown by the fact that in this disturbed year 1919 at last dividends were increased above the previous 8% rate, and a resolution adopted by the Board of Directors at the same time increased the reserve put aside for the payment of common dividends to a point where this sum guarantees dividends at the present rate of 12% for the next three years.

The procedure by which these good results were attained may be gathered from a consideration of the accompanying graph. It will be seen that while earnings took a sharp rise beginning with 1917, dividend rates, which had been close to earnings in 1914 and even ahead in 1915, increased nowhere near in proportion to earnings when the really big era of prosperity came. This increasing margin between the amount earned on the common stock and the amount paid on the common stock measures the extent by which American Car & Foundry was increasing its assets and fortifying its financial position.

The attached table shows another way in which the increased earnings were made to represent strength and stability. As the company made more money it converted large amounts of it into renewals, repairs, and general overhauling. This sort of expenditure finds its justification in the long run in improved efficiency and a smaller operating ratio, which often helps tide a manufacturing corporation over a period of hard times. Unusual increases in this kind of spending may justly be considered as the creation of "hidden assets," which cut no figure in the balance sheet but add greatly to the intrinsic strength of the company.

Company's Finances

American Car & Foundry, strangely enough for a corporation of its size, has no funded debt at all. Its capitalization consists of $60,000,000 authorized, all of which is outstanding, equally divided between preferred and common shares, each of a par value of $100. Dividends of 7% have been paid regularly upon the preferred, which is non-cumulative, since the first year of organization. On the common dividend payments varied from 1 to 4% between 1900 and 1904, then were discontinued till 1906, stayed at 3% for two years, and then remained at a level of 2% in the stretch from 1909 to 1916. From 1917 to 1919 the rate was 8%, and this year the rate was officially raised to

	Net Current Assets per Share	Renewals, Repairs, etc.
1914	$74.00	$2,052,918
1915	71.00	1,284,117
1916	69.00	1,779,341
1917	89.00	7,212,037
1918	109.00	5,189,081
1919	124,00	5,501,359

12%, with the provision for a dividend reserve mentioned above. The common stock is therefore a dividend-payer of well-established strength, which deserves consideration from investors as a semi-speculative investment of unusually attractive possibilities.

At a late price of 116 for the preferred stock, the yield is 6%, which is fairly low for an industrial preferred and reflects the high grade of the stock as an investment security. The common selling at the same time at about 136 yields 8.82% which, in view of the company's strong position and ability to maintain the present dividend rate for at least three years more even if the situation does not improve, is fairly high. In addition the possibility of a stock dividend, which is always something to be considered in these days in the case of any corporation that has built up large asset values through a conservative policy, gives a further attractive possibility to the common stock. Action in this direction, if any should be taken, will of course be affected by the pending Supreme Court decision as to the taxability of stock dividends.

Prospects

At the present time the company is working on a few big European contracts, notably one with the Italian Government for 10,000 cars, and is deriving some income from repair work on domestic locomotives, passenger and freight cars. Some weeks ago the president of the company came back from an extended trip to Europe to see about financial arrangements to be made in connection with orders from France, England, and South America, and it is expected that tangible results of his work will shortly be seen in the form of definite orders from foreign countries.

The domestic railroad situation is also closer to being settled than ever before, and as soon as some definite solution is

---

Saxon Motor Reorganized Successfully

Alleged that Company will Start with $2,000,000 Working Capital—Prospects of Stock in Doubt

SPONSORS of the reorganization of the Saxon Motor Car Corporation say that the company will emerge from the reorganization free of debt and with a working capital of over two million dollars. When it is considered that in the year 1917 the company had outstanding indebtedness of $3,700,000 and liabilities of something like $11,000,000, this claimed reversal of form is remarkable to say the least.

Saxon's Troubles

The troubles of the Saxon Co. which led up finally to the recent reorganization appear from the outside to have been due to combined bad luck and bad management. Hard times for the company were ushered in so to speak, in February, 1917, by a fire which almost totally destroyed its plant in Detroit, Michigan. Rebuilding was begun at once, and operations there resumed in the following month.

The next fatality surrounded the erection of another plant at Springwells, Michigan, adjoining the city of Detroit. Work on this plant had not been under way for very long when the company found itself in financial difficulties calling for immediate relief, and the building had to be given up for the time.

To take over this partially finished plant a new corporation was formed, which was entitled the Industrial Terminal Corporation and capitalized at $800,000. This corporation assumed the equity of the Saxon Motor Car Corporation in the new plant, obtaining funds for its completion and the paying off of lien claims through the sale of $600,000 of its own first mortgage 6% gold bonds.

Although the matter of financing this construction work had been arranged for, the Saxon Co. apparently had no use for the new works. It was leased, shortly after, to the Government for use as a storage and warehouse, being used for this purpose during the period of the war.

But getting rid of the burden of this plant did not by any means solve Saxon's troubles. What appears to have been a plain error of judgment on the part of the management had impelled the corporation to amass large quantities of material and assume contracts whose execution was dependent to a great extent on a prolonged boom in the motor industry. The slump in that industry, which began in 1917, caught Saxon unprepared, with over-stocked departments and heavy indebtedness.

The seriousness of the situation increased rather than diminished. Efforts to adjust the company's affairs were for a while entirely unsuccessful. Several meetings were held with representative stockholders and also with representatives of banking houses, but the only decision arrived at was to defer any permanent plan of reorganization until conditions became more favorable. In the meanwhile every effort was made to reduce the company's outstanding indebtedness. On November 1, 1917, a payment of 10% was made on this indebtedness, and on February of 1918 a second payment of 10% with interest at 6%.

Reorganization Plan

Early in the current year a reorganization plan was drawn up which finally met with the approval of the stockholders and creditors of the company. Briefly, this plan provided for the organization of a new Saxon Company, with an authorized capital stock consisting of $1,100,000 8% cumulative preferred, of par $100, and 200,000 shares of common, of no par value. No bonds were authorized.

This plan was formally adopted at a meeting on November 5, 1919. Of the authorized stock it was decided to issued $1,250,000 preferred and 180,000 shares of common. The issues were later offered to the public at $96.00 and $13.50 a share, respectively. Holders of the old stock were priivleged to subscribe to two shares of the new for

each share of old that they held, at **$13.50 a share.**

The first use to be made of the money derived from the sale of stock was to be the retirement of the company's remaining indebtedness. The new preferred provided for the liquidation of all but $500,000 of this indebtedness; the remainder, it is stated, was amply covered by the common.

Further funds, it is understood, were obtained through the sale of the Industrial Terminal company's plant to the General Motors corporation. Terms and details of this transaction, however, are not immediately available.

TURNING OUT MOTOR CARS

It is reported that the Saxon company plans to produce a new model car which will be very different from the type it has previously manufactured.

New Type of Car

In addition to this drastic alteration of its financial structure, the Saxon Co. contemplated quite as striking a change in its product. It has now become general knowledge that the company intends to introduce an entirely new model car. Naturally, since there have been no official specifications yet made public, there have been many conflicting statements as to the real specifications for the new model. Perhaps the most reliable information on the subject is that furnished by the brokers who are handling the new stock issue and who may therefore be assumed as fairly close to the company's affairs. They say that the new car will be a 4-cylinder touring body, seating five passengers, and that it will sell for $1200. If these specifications are correct—and there is no reason to doubt their accuracy—next year's Saxon car will be a gorgeous affair compared with the "bug" model which the old company produced and which sold for about one-fifth the price.

President's Remarks

Thus revised from stem to stern, the present Saxon Motor Car Corporation starts another era in Saxon history. Speaking of its prospects and outlook, the president, Benjamin Gotfredson, is quoted in a published statement, in part, as follows:

"The company is maintaining a recognized successful policy of producing a one model car which sells for slightly over $1,200. The company has ample equipment for a minimum yearly production of 7,500 cars.

"The sales organization of the company includes dealers of large distributing ability. The company has no funded debt of any description, and after the new financing will show only a nominal amount of current accounts payable. The total assets including good will of the company will show over $7,000,000, of which over $1,250,000 will represent cash on hand.

"A conservative statement places the earnings for the coming year at $1,000,000, which is ten times the preferred dividend, with a balance of about $4.50 per share for the common. Expectations are for an evne better showing than this."

Of course, it is not easy at this time to gauge the possibilities of the Saxon Motor Car Corporation. However, it requires a rather considerable stretch of the imagination to see earnings possibilities of anything like $4.50 for the common stock in the current year. Assuredly, Mr. Gotfredson calculated cost of materials, rentals, preferred dividends, depreciation, and the like before arriving at his estimate; but this statement cannot, as quoted, be considered as even bordering on conservatism.

Apparent Balance Sheet

Confidence falters aagin at the sight of a balance sheet of the company, published by a generally reliable agency and purporting to represent the condition of the company following the reorganization. The sheet shows the following:

ASSETS:	
Cash	$1,200,000
Inventories, accounts, and car drafts	1,000,000
Goodwill	4,557,229
Total	$6,757,229
LIABILITIES:	
Preferred stock	$1,250,000
Common stock (no par)	5,507,229
Total	$6,757,229

The foregoing figures, assumed to be correct, are interesting particularly for the goodwill item of $4,557,229. What rights, patents, etc., accruing to the new corporation are of sufficient dimensions to warrant this figure it would be hard to say, at least unless more detailed information is forthcoming.

Discounting the goodwill item entirely, the foregoing statement shows assets including cash, inventories, accounts and car drafts, amounting to $2,200,000, and liabilities of $1,250,000 representing preferred stock. Applying the difference to the 180,000 shares of common stock to be issued gives that stock tangible assets value of slightly above $5 a share.

Future of Stock

If it is true, as claimed in quarters which at least ought to be authoritative, that the Saxon Co. has already closed contracts for 12,000 motors; if the manufacturing facilities, including material, are sufficient to warrant capacity business; and if the new model, upon which it is assumed the company will concentrate its efforts, is successful, considerable confidence can be reposed in the future possibilities of the common stock. However, there is nothing but semi-official confirmation for any of these statements.

Much can be said in favor of the adroitness with which the management accomplished the reorganization, paying off the entire large indebtedness of the company with 6% interest; and there is much that is favorable in the reported fact that the interests responsible for overbalancing the company's finances in 1917 have left the board. Still, with every desire to be fair in estimating the value of the stock, it is still difficult to see where the current price of $13.50 per share is warranted either by margin of safety or anything approaching assured possibilities.

BURLESON'S WIRE REPORT IS UNFAVORABLE TO U. S. CONTROL

"A report of Postmaster General Burleson indicates that the operation of the telephone and telegraph system of the country during the war by the Federal Government is no more encouraging to the advocates of public ownership than the experience of the Government with the railroads. The difference between the net earnings of the companies taken over and the compensation guaranteed to the owners by the Government was $14,418,237."—Guaranty Trust Company.

Southern Pacific Oil Land Suit Dropped

Attorney-General Palmer Decides That Government Has No Chance to Win—Result Confirms The Magazine of Wall Street's Investigation of a Year Ago.

BEGINNING with the issue of Oct. 26, 1918, The Magazine of Wall Street published a series of five articles on the Southern Pacific, devotng special attention to its oil lands. In the preparation of this series a long and costly investigation had been made, covering the history of the road and its land grants, the records of the U. S. Land Office, the Geological Survey, the California State Geological records, the Congressional Library, State and U. S. statutes, and the records and decisions of the Department of Justice.

These articles attracted wide attention and brought Southern Pacific to the attention of investors the country over as an "oil stock." Among the other factors discussed was the prospect of the U. S. Government suits against the company to recover the oil lands, and the conclusion was reached that the Government had little or no chance to recover any considerable part of these lands.

The Elk Hills case, involving only about 6,000 acres which the company considered of little value, has been decided in favor of the Government. But Attorney-General Palmer now announces that the main suit, involving about 162,000 acres of lands, mostly in the San Joaquin valley, has been dropped because of his belief that the Government could not win.

From the oil man's point of view, this land ranges through all the classifications of "proven," "probable" and "possible." The proven acreage of Southern Pacific amounts to 18,267 acres, or 20.9% of the proven acreage of the state of California. The proven land alone, at a current valuation of $5,000-$10,000 an acre, is estimated to be worth between $35 and $70 a share on the common stock of Southern Pacific, while the probable and possible oil lands are worth several hundreds of dollars an acre.

All this land has never been carried at all on Southern Pacific's balance-sheet, and constitutes a hidden asset of great importance in determining the real value of the stock. The total land holdings of the railroad amount to 10,800,000 acres, but only a small part of this acreage has been considered oil-bearing.

In considering the actual production figures of the disputed territory, it must be remembered that an injunction has been outstanding, obtained by the Government, which prohibited the company from doing any further drilling in any part of the debated lands. As a result, Southern Pacific could not make up for exhaustion of old wells by drilling new ones, although it retained the right to extract oil from the wells drilled before the commencement of suits.

As a result, production, amounting to 9,500,000 barrels in 1917, fell to 8,500,000 barrels in 1918, though Standard Oil, which has oil lands close to the Southern Pacific acreage in question, has been continually increasing its output. At the present time production is said to be running at the rate of about 25,000 barrels a day, although the road uses for fuel and lubrication for its locomotives, between 40,000 and 45,000 barrels daily.

The California Fuel Oil Department of the road, which handles practically all its oil operations, earned in 1917, with allowance for changes in accounting practice by the railroad, $8,507,127, and in 1918, $6,250,258, a decrease of 26.5%. These figures are respectively about $2.80 and $2.07 a share on the common stock. While this department is not run as a commercial enterprise, its production has a vital effect on the finances of the railroad, as its deficiencies in supplying the fuel needs of the road must be supplied by purchase in the open market, in which prices have gone up considerably since the suits were started. On the basis of the oil production and consumption figures given above, if the company could produce at least enough oil for its own requirements, as it undoubtedly could if its acreage were released, it would save at least $10,000,000 a year on its operating expenses, figuring as low as $1.50 a barrel for fuel oil.

That the decrease in operating income from the California Fuel Department is probably due entirely to the restricting order is indicated by the corresponding figures for The East Coast Oil Co., which operates Southern Pacific's Mexican oil properties, and the Rio Bravo Oil Co., which handles its Texan business. In 1917 the East Coast Oil Co. earned $265,382, in 1918, $553,161, an increase of 100.9%. The Rio Bravo Oil Co. earned $306,732 in 1917, and $408,473 in 1918, an increase of 31.2%.

An attorney for the Southern Pacific is quoted as having stated recently that if it were not for the injunction against drilling the company could have turned out an average production of 17,000,000 barrels a year for the last four years. Assuming that this statement is approximately accurate, it would seem that the acreage already proven should be worth as an oil producer, on the basis of 1918 costs, about $12,500,000 annually, or over $4 a share on the total capitalization.

What the Suit Means

Now that Southern Pacific has emerged victorious, it means the indisputable possession of 162,000 acres of "oil land,' all of which may possibly contain oil, and over 18,000 acres of which are known to contain oil on the basis of test wells already drilled. This land was estimated by a Federal commission in 1917 to be worth $439,000,000, giving the disputed land a value of about $146 a share on the company's stock.

Regarding the lands not as assets, but as revenue producers, they should be worth about $4 a share annually to the stock at a conservative estimate, with probabilities of greater earning power if more than the present 17% of the land is found to be oil-bearing.

Regarded as an integral part of the transportation system of the railroad, inasmuch as they supply partially even now the lubricants and fuel for the locomotives, the contested lands, if they only fill the road's own needs, mean a decrease in operating expenses of not less than $10,000,000 a year, or almost a month's operating expenses.

A SOUTHERN PACIFIC OIL TRAIN

The statement was recently made that had it not been for the injunction against drilling, Southern Pacificc could have produced seventeen million barrels of oil annually.

Frisco's Outlook Hopeful

Prior Lien Bonds Give Unusual Yield—Reasons for the Extreme Weakness of the Income Bonds—Recent Earnings Show Marked Improvement

IN 1918 the St. Louis & San Francisco Railway had a deficit of $2,148,000 after paying its income bond interest, as measured by returns on its actual operations regardless of the Government guaranty, and a good deal of discouragement was felt as to its prospects. This deficit compared with a surplus of $2,848,000 in 1917.

For 1919, to date, actual earnings have been running at a rate to fully cover all bond interest and leave a little surplus for the preferred stock. Nevertheless the prices of Frisco's securities have shown scarcely any improvement. The income and adjustment bonds, especially, have been decidedly weak.

The Government guaranty or "standard return" fully covers all bond interest and leaves about $3.75 a share for the preferred stock. This is what the Frisco will get for the years 1918 and 1919 and since actual earnings are now equal to the standard return and may somewhat exceed it for the full year 1919, it is rather surprising that the company's securities should sell so low.

The general uncertainty of the whole railroad situation and the heavy demands on the market for capital are the principal reasons for this weakness. Another reason is that the Frisco was reorganized in 1916, so that its new securities have not yet become "seasoned" in the minds of investors. There has also been heavy selling of the bonds from France, where the premium on the American dollar through foreign exchange makes our bond prices in francs look very much higher than they look to us in dollars.

Interest Charges Scaled Down

In the 1916 reorganization the company's interest charges (aside from the income bonds) were scaled down from $14,886,000 annually to $9,158,000, a reduction of more than 38%. This was conservative, but the company was criticized for the creation of $4,544,000 of contingent charges representing the interest on adjustment and income bonds. This interest is payable only when, as and if earned, so they are in almost the same position as preferred stocks. The matter of nomenclature is perhaps not very important, but it is difficult to see what advantage is gained by calling a security a bond when it is really not a bond in the proper sense of that word.

This company's 5,400 miles of track spread over Missouri, Kansas, Oklahoma and Texas, a growing territory which is still in the early stages of its industrial development. Gross earnings, naturally, were increasing even before the war, and in 1918 they were over $72,000,000 against $41,000,000 in 1910. The moderate increase in rates allowed in the middle of 1918 helped toward the good showing for that year.

Net earnings, with this as with all other roads, were pulled down sharply by rising costs and wages, being 27% less in 1918 than in 1917, in spite of an increase of 21 % in gross; but net for 1919 will make a much better showing.

Total interest charges (aside from adjustment and income bonds) have been earned the following number of times in the last four years:

1916	1.73
1917	1.88
1918	1.27
1919	1.50 est.

These, it must be borne in mind, are actual earnings, not the Government standard return.

In view of this showing, the prior lien A and B bonds, now selling at 54¼ for the 4s and 66½ for the 5s, to yield approximately 8% to maturity, certainly look cheap. It would seem that any sort of reasonable settlement of the railroad question must leave the Frisco in a position easily to meet these fixed charges; and the mortgage security behind these two issues is excellent. But few securities giving a yield of 8% on the investment are equal to these bonds in stability and general prospects.

The Adjustments and Incomes

The adjustment 6s, selling now at 55, and the income 6s, selling at 41, are to be rated as speculative, and their position has been the subject of a good deal of current investment comment. The weakness of these issues indicates plainly that investors are in doubt whether the interest can be paid after the roads are returned to private ownership.

As to 1919 there is no question, since interest on both issues is covered by both the standard return and actual earnings. It is highly probable, also, that the standard return will be continued for another six months. After that it is likely that the roads will have to depend on themselves, but with an adjustment of rates that will permit a fair average return on railroad capital actually invested.

In view of the cut in the Frisco's capitalization in 1916, the road should certainly be able to pay the interest on the adjustment 6s under private ownership, at any physical valuation that seems at all likely to emerge from the prolonged lucubrations of the Interestate Commerce Commission. At 57, these adjustment bonds give a yield to maturity of nearly 11% and they certainly look like a fair speculative risk for some of the business man's spare funds.

The income 6s have the advantage of giving a straight income yield of almost 15% at 41, so that any one who believes he can sell them even for what he has paid, would be getting a good profit from the interest returns. But there are so many complications in the railroad situation now that it would be hazardous to venture any prediction as to whether this interest can be paid regularly.

It should be noted that the adjustment 6s are cumulative, so that interest, if passed, would be pretty sure to be paid later; but the income 6s are non-cumulative, and the interest, if passed, is gone forever.

The Stocks

There seems to be no good reason for holding Frisco stocks. Apparently it will be some time before the preferred is legitimately entitled to its non-cumulative 6% dividend. There is only $7,500,000 of it outstanding and it is hard to buy and sell, present quotations being about 20 bid and 25 asked. There are plenty of stocks at that price which look better and are more salable.

The common, at 16, is pretty far down the scale as this company is now organized, having two income bonds and a preferred stock ahead of it. It ought not to sell much lower and might sell a good deal higher some time, but the average investor does not care to tie up his money in low-priced issues of this class.

A RAILROAD TRAIN IN 1831.

The little engine "De Witt Clinton," with its remodeled stage coaches, attained a speed of 15 miles an hour. It ran on what is now the N. Y. Central.

Otis Elevator Company Having Best Year in its History

Increased Domestic Business and War Work Pushing Up Earnings.

IT is predicted by the officials of the Otis Elevator Company that the current year will prove the best in the history of the company. Domestic business, which bears practically the entire burden of the company's finances, has expanded materially, and foreign business, which was of course at a minimum during the war, is picking up in a satisfactory manner.

The company's business interests include plants and agencies in this country, Canada, England, France, Germany and South America. It has concentrated since its organization on the manufacture of elevators, except for some diversification during the war, and its orders come largely from office buildings, hotels, warehouses, etc. Besides having a number of Government orders for the elevator equipment of the many new buildings erected for war purposes, Otis Elevator also diverted a portion of its capacity to the manufacture of artillery recoil chambers. This war work was a helpful addition to the company's regular line, tiding Otis Elevator over the dull period in construction work which prevailed up to the current year and helping to produce net profits for the period of $9.77 a share. Almost immediately after the closing of the company's war business, the building boom began in this country that has continued ever since. As a result, the company's already secure financial position has been further strengthened.

The American plants of the Otis Elevator Co. are at Harrison, N. J.; Yonkers, N. Y.; Buffalo, N. Y., and Quincy, Illinois. It has a fifth plant at Chicago which was utilized for war purposes. Since that plant was neither equipped nor in operation at the time war started the fact that it was used for Government service did not hamper the Otis Company in the least.

Foreign Interests

Advices from the foreign plants of the Otis Company indicate that its interests outside of the United States are growing in earning power and possibilities. Especially satisfying reports are coming from the Waygood-Otis, Ltd., in England, and the Ateliers Otis-Pifre of France. Concerning the Otis Aufzugswerke Gesellschaft of Germany, which is owned outright by the local company, officials say they have only meagre information. Reports concerning the general revival of business in Germany, however, would seem to indicate that there is a determined effort on foot to restore conditions there to normal with all possible speed, a growing spirit of co-operation among the mass of the people doing much to assist in this direction; and substantial American business men are growing more and more confident that the restoration of Germany's commercial balance and integrity will, at least, be accomplished much sooner than had been originally anticipated. Other branches of the Otis Elevator Co. extend into Canada, where the company owns practically all of the common stock of the Otis-Fensom Elevator Co., Ltd., whose plant covers 23 acres in Hamilton, Ont. In South America the Otis establishment has been developed through selling agencies, although no plants of the company are as yet being operated there.

The financial position of the Otis Elevator Co. at the present time is a very strong one. Large amounts have been charged off each year since the organization of the company for depreciation, and during the war ample sums were set aside for "depreciation account of foreign companies." For this latter purpose $380,000 was set aside in 1917 and $340,000 in 1918.

In 1918 the company was forced to carry large inventories, owing to the high prices of labor and material and the unusual difficulties in obtaining them when needed. This condition was reflected in the bills payable account, the December 31, 1917, statement showing notes and accounts payable of more than $7,000,000. In the following year, however, the comparatively light volume of new business handled by the company made possible the completion of contracts carried over which, of course, resulted in a substantial reduction in inventories and work in process.

Accounts payable went through a corresponding paring process, being reduced by almost four millions dollars, and the resultant influence toward stabilizing the company's financial position will be apparent.

Net earnings of the company since 1905 have crept persistently forward, amounting to $1,012,488 in 1918, compared with $912,938 in 1905. Dividends have been paid regularly on the preferred stock at the 6% rate, and the common, which was paying 2% in 1905, paid 5% in 1918. In view of the good earnings of the company there would seem to be an ample margin of safety to provide for the continuance of these payments in the future. For the current year it has been estimated that the company will earn $2,000,000 after all interest charges and taxes.

It can be stated that the original bond issue of $3,000,000 6% convertible debenture bonds has been reduced to date to $1,506,000. This reduction was accomplished through the retirement of $228,000 through purchase by the company and the conversion of $1,266,000. As of November 1, 1919, there was $6,500,000 preferred stock outstanding and $7,838,067 common.

With the estimate of $2,000,000 net earnings for the current year as a basis and after deducting $390,000 for preferred dividends, the company should show this year approximately $20.54 a share for the common stock, comparing with $10.87 for the common in 1918, $13.36 in 1917 and $6.22 in 1916.

General Outlook

No minor point in these days of labor troubles is the fact that the company's plants are distributed over an unusually wide territory; strikes in one section need not affect more than one branch of the organization. As to the coal shortage, we understand that the company's storage supply of fuel is adequate for some time to come.

THE FIGURES ON OTIS ELEVATOR, 1912-1919

(In Dollars Per Share on Common Stock.)

Year	Net Earnings‡	Dividends paid	Working Capital
1912	17.72	4.00	105.05
1913	18.16	5.00	93.60
1914	13.75	5.00	82.59
1915	11.55*	5.00	14.30
1916	16.27	5.00	22.30
1917	22.11	5.00	10.17†
Tot 1912-18	16.49		34.73

‡ Including amounts laid aside for Pension and Relief Fund and Depreciation and contingencies.

* No amount laid aside for Pension and Relief Fund and for Depreciation and contingencies.

† Current liabilities in excess of current assets.

The great number of installations completed in the last few months will mean a much larger field in the future for the repair and renewal work, which constitutes a good proportion of the Otis business and is profitable. Regarding this latter field, attention is called to a recent statement to the effect that renewal and repair work constituted "two-thirds of the company's business." This statement is manifestly absurd. As a matter of fact, the proportion of repair work to installations varies each year to a very considerable extent, according to the number of installations, and it is a question whether the renewal item has ever yet reached even half of the total. However, renewals and repairs constitute a significant item in the company's earning power.

The management of the Otis Elevator Co. at the present time is, to a great extent, the same as guided the company through its first steps and made it one of the fastest growing corporations of the last decade considering the results obtained thus far, confidence can be placed in them to maintain the company at its present high standard.

Otis Elevator common stock has been selling on the Exchange at around $130 a share. As an industrial stock paying 5% dividends this may seem at first a rather high figure. The explanation lies in the large margin of safety behind this stock and the steady financial performance of the company since its organization. There is talk in some quarters that the Otis dividend rate may be increased in the not distant future; whether or not there is any foundation for these rumors, the company's large earnings for the current year would apparently justify such action.

Trade Tendencies

As Seen By Our Trade Observer

Railroads

Emergency Legislation Sought

AS THE President has announced his intention of returning the railroads to private ownership by the first of January, irrespective of Congressional action, the probabilities are that some form of emergency legislation will be attempted, which will take care of the roads' current needs without involving any such highly disputable questions as the right to strike, a guaranteed return on investment, or the like. For the time being, the Washington situation is that the Cummins bill is up before the Senate, having been shelved by discussion of the Peace Treaty, while the House has passed the Esch bill, which differs from the Senate measure in several notable respects, particularly in leaving out the penalty for strikes and substituting a series of arbitration boards.

Other important provisions of the House bill are its continuation of the Federal fixed return for six months after the return of the rails to private ownership; a funding plan for the settlement of the railroads' debt to the Government, a plan for Federal five-year loans to the roads some two years after their return; and important extensions of the authority of the Interstate Commerce Commission.

That the Railroad Administration intends to restore the roads to their former owners no matter what Congress does about them is indicated by an order handed down by the Administration discontinuing, as of December 1, the universal interline waybill, which permitted the handling of cars over different lines without re-billing, as all the income from freight was pooled, and also enabled the roads to use a smaller clerical force than that now made necessary. The significance of this step is that apparently henceforth a closer watch will have to be kept over the proportionate distribution of revenue among the different roads, as their operating revenues will no longer be turned in to the same authority nor will their income all be derived from the same pocket. In other words, it is the beginning of a return to the competitive system of operation.

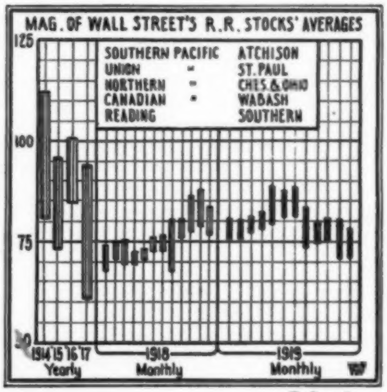
Current Operations

The railroads are now beginning to make money for the Government rather than to be a source of expense, although their total excess above the standard return is only $11,0000,000 for the month of October, while deficit for the first ten months of this year amount to $269,268,158. Net gains have been recorded every month since July.

In a statement to the Senate Director General Hines said that the Government is employing over 1½% more employees than the road sdid at the end of 1917, and is paying them about 53% more wages. To some extent this increase is due to the Government adoption of the eight-hour day as basic for all its employees.

It is stated officially that the roads have enough coal on hand to keep them going at normal for about a month,, although they are now supplying public utilities and other consumers high on the priority list with coal. A freight embargo, officials say, will not be resorted to unless n the utmost emergency.

THE average investor has neither the time nor the opportunity to follow developments in the various industries although such developments at times are of vital importance in the consideration of the long range prospects for securities. This department will summarize and comment upon the tendencies in the more important trades as expressed in the authoritative trade publications and by recognized leaders in the various industries. As the general tendency in a given trade is but one of the many factors affecting the price of securities representing that industry the reader should not regard these trade tendencies alone as the basis for investment commitments, but merely as one of many factors to be considered before arriving at a conclusion.



To Dec. 4.

Steel

Hurt by Coal Strike

AT THE time of writing the steel industry is suffering from the effects of the coal strike at a time when it could have been recuperating from the effects of the steel strike. A number of furnaces have been banked and some blown out, and the number will probably increase unless some effective settlement is soon made, as stocks of coal which have been keeping some furnaces running give out. At the same time some of the bar and rolling mills are idle for lack of steel.

Up to a few weeks ago conditions in the steel industry had been improving, and it was considered possible to weather the coal strike without serious difficulty. At present, however, there is a decided shortage of steel, and few new orders are being taken because of the difficulty of promising delivery. A certain amount of activity is being resumed in the rail mills, where a small amount of current business is being handled, and orders are said to be reserved by the railroads in anticipation of their return to private ownership next year. It is estimated that their needs will be for 1,000,000 tons at the very least, with about 250,000 tons said to be immediately pending.

Few steel mills are willing to take on new business even for 1920 delivery, as the pig-iron market is showing signs of a strong upward tendency. Prices have been advanced recently at the rate of $2 to $3 a week, with evidences of pronounced inability on the part of the pig-iron producers to meet the demand made upon them. It is likely that the pressure on the iron makers will be reduced in view of the growing idleness of steel furnaces, but in all probability this will make for more violent movements when the deferred steel orders begin to be filled.

Prices Holding Firm

For the most part, prices of steel products have not advanced to any marked extent, in spite of a tendency on the part of the smaller producers to take advantage of the premium on prompt delivery to quote higher prices, which they have no difficulty in obtaining. Buyers' demand is keenest in sheets, bars, wire nails and tin plate, in the last of which industries mills have been closing down of late. Structural steel is holding perhaps the best of al, in spite of an inceasing eman.

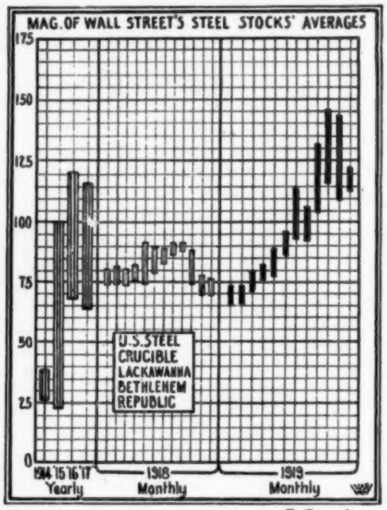
A policy of allocation of available output has been found necessary in most branches of the steel industry, and only the most valued customers of the various mills are receiving any attention in current shipments. Many mills are closing their books with scores of thousands of tons of new business available.

Although the strike in the steel industry is believed to have been definitely crushed, a shortage of laobr is reported, as many of the workers who struck have either gone into other occupations, particularly during harvest-time, or else are intending to leave the country. Should the industry revive shortly with a settlement of the coal strike, this shortage will probably be felt more keenly than at present.

Export trade of any consequence is of course out of the question at this time, when so much new domestic business has to be refused. Plates and structural steel are being bid for heavily, however, as it is known that

American steel can be delivered to England, with allowances for depreciated exchange and freight costs, at much lower prices than English steel. Export inquiries have been accumulating, and if production could be increased it would find a ready outlet abroad.

The outlook for steel is one of great prosperity as soon as labor troubles are definitely put out of the way and output can be increased. Unfilled orders now on the books together with new business offered would keep the



To Dec. 4.

mills busy until well into 1920. As to price movements, it is difficult to hazard a prediction, as the large amount of unfilled orders would tend to act as a stabiilzer, but at the same time would decrease the tonnage capacity available for new business.

Wheat

Restrictions Off Exports and Imports

THE effort that Wheat Director Barnes has been making for "business as usual" in the grain industry has been so far successful that he has induced the Government to declare all restrictions on the export and import of wheat abolished after December 15. The effect of this move will in all probability be to depress the price of wheat and wheat flour to the Government minimum price, as it is known that Argentine wheat can be exported to this country for about 20 cents a bushel less than the Government minimum, and therefore the farmers will have to sell the most part of their crop to Government agencies, which are bound to maintain the standard price.

Unless Canada takes some restrictive action it is also probable that some importing will be done from this source, as the Canadian crop is known to have been a generous one this year. The difficulty is that the transportation of Canadian wheat will have to be done by rail, as the lake routes will be closed by the time the order goes into effect.

The movement of our own wheat crop is giving the railroads considerable trouble, and of late receipts from the interior have showna marked decrease from last year's figures, when the crops to be moved were not so large. The difficulty with the soft coal situation is not likely to help matters any. Efforts made by the Railroad Administration to facilitate crop movement by hastening the entry into service of new and repaired cars, and also by the rerouting of freight cars, have been partially successful, but have not been able to hinder a tendency to congestion at points of accumulation such as grain elevators and warehouses.

Flour an Antidote to H. C. of L.

According to Grain Corporation officials the consumption of wheat flour has increased over 15% in the United States which result they attribute partially to Government advice to housekeepers to use more flour and less of the more expensive foods such as meats and fats. As corroborative evidence they offer the fact that within the time covered by the study of flour consumption figure the prices of lard, hogs and similar foodstuffs have decreased sensibly.

In a leaflet issued by the Department of Agriculture is a warning to farmers that they should plant less acreage to wheat than this year, as in all probability Europe will not be able to absorb so great an amount of export wheat as it did during the troubled conditions existing in wheat-producing countries since the armistice. If the Government's advice is taken to the letter, next year's crop should total about 840,000,000 bushels, compared with this year's of slightly over a billion.

The export movement this year, of course, has been unprecedentedly heavy, in spite of the handicap imposed by the foreign exchange situation, even in comparison with last year's, stimulated by war demand. With the prospect of large exports from Argentina and Canada, however, now that Government restrictions are about to be removed, prices are expected to be based upon the Government fixed price, which will act as a maximum instead of a minimum level, as had been expected.

Dyes

Renewed Activity Noticed

THE domestic dyestuffs market is becoming broader, more buyers are entering, although business is still largely on a hand-tomouth basis. Labor uncertainties are coming to the fore again in determining the volume of buyng, and the steadily increasing volume of production is tending to make prices easy, although few definite declines have been observed.

Export business has been declining for some time, partly because of the general conditions which have troubled all exporters, such as delayed reconstruction in Europe and falling exchange rates, partly because some of our best customers, such as Australia, India and Singapore have been eliminated by British Imperial embargo order, in accordance with the policy of Imperial preference which has been adopted to stimulate British foreign trade.

All arrangements have been completed by the War Trade Board for its proposed imports of vat dyes from Germany under strict license and allocation, but it is not expected that this action will do much to relieve the shortage which now exists in those dyes which we still have to import, as American dye manufacturers are not yet ready to manufacture them on a commercial scale. Swiss dyes are being snapped up eagerly as fast as they come in, and it is believed that a large unsatisfied demand for foreign dyes still exists.

Intermediates and to a less extent crudes are in great demand by dye makers, indicating that much is being hoped for the future of the American dye industry, but activity in this direction is being hindered seriously by the soft coal strike.

Pending Legislation

Dye-makers now have their eyes turned on Washington, for it is admitted that a certain measure of Government protection is still needed before the American dye industry can afford to compete with German and other foreign dyes on a basis of full equality. President Wilson in a recent message advocated the protection of the "infant" dye and chemical industries of the United States.

The Longworth bill which has been introduced before the House provides for a high protective tariff on dyestuffs, but dye men believe that protection should be made still stronger, by putting the importation of dyes in the hands of a licensing committee, whic hshould grant licenses only if the prospectivei mporter can prove absolute necessity and inability on the part of American manufactures to supply the needed dyes. Manufacturers complain that a mere duty will not suffice, in view of the extraordinarily low level of German exchange, which of course makes Germany about a dozen times as cheap to buy from as it used to be. Correspondingly a tariff of 1200% would be needed to put German dyes on the same level as American. They therefore suggest such measures as control or complete prohibition of imports of dyes, or else control and compulsory utilization of patents.

The Penrose resolution adopted by the Senate some weeks ago continues the war-time control of dye imports until Jan. 15, 1920, by which time permanent dye legislation is expected to have been passed. This is expected to be of assistance to American manufacturers in avoiding the possible dumping of German dyes on the market until definite protective legislation now being contemplated goes through.

The official attitude of the Government is that dye makers should be protected by limiting the importation of

German dyes, but on the other hand they should be compelled to improve and diversify their product by providing that within a fair length of time they should be able to supply a "reasonable" amount of dyestuffs to American consumers at a "reasonable" price, under penalty of losing the support of the Government. It is obvious that a word like "reasonable" in such a connection leaves room for much elasticity in interpretation, and American dyemakers confess frankly that their position is highly unsettled.

For the present, however, they have little to fear, with an improving demand for their product, increasing production, and effective protection against foreign dumping.

Rubber

Rubber Market Revives

AFTER a long period of inactivity which persisted till after the summer months, the rubber market has quickened and begun to look more like the other commodity markets, with heavy sales, active demand, and rising prices as its chief characteristics. The steady decline in price which has characterized rubber since 1900 has temporarily been arrested, but the downward tendency is still present. The dominating factor is of course overproduction, rendered more and more acute as newer methods of manufacture are perfected and more territory is discovered to be suitable for planting rubber. An English inventor is said to have perfected and exhibited before Governmental authorities a new method of treating raw rubber which will cut down the time of treatment from days to hours, and if this method can be used on a large scale a decline in price of the crude rubber is to be expected.

The tire industry's demand for rubber has been insistent and increasing, and has been the one element that kept the market, deluged as it was with selling orders, from going entirely to pieces.. The mechanical rubber industry has been very dull all this year, and has not been able to absorb much of the rubber which has been pouring into this country. Imports this year have been nearly three times as much as for a corresponding period last year, when rubber importations were restricted by Government control. The tire companies have been working their plants on a twenty-four hour basis because of the increase in the number of motor-cars and trucks, but here, too, overproduction is said to have been the result of abnormal expansion, and a price-cut was announced by many tire companies in October, though it is said in many quarters that prices may have to be restored to their former levels because of the high wages of labor, costs of the high-grade cotton fabric that goes into tires, and the like, although the increased cost of crude rubber has not been significant.

An interesting angle of the situation has been the way in which the center of gravity of the crude rubber industry has shifted from Brazil to the Far East, since the discovery was made that rubber could be grown on plantations just as well as in the forests of Brazil. As the present time indications are that the Eastern plantations supply about 70% of our imports of crude rubber and Brazil about 20%.

The outlook is for still greater activity in tires, as the plans to increase automobile production which are being matured now begin to bear fruit, but the other sources of demand for rubber are not expected to create much buying until foreign exchange conditions improve and a heavy export movement in the less essential articles can get under way.

Cotton

Upward Price Tendency

COTTON is approaching new record highs steadily, and to all appearances the advance will continue for some weeks to come. Nearly all the bad news is out, including the restrictions on speculation, the unfavorable conditions of foreign exchange, and the Mexican trouble. The only uncertain bearish factor is the extent and duration of the coal shortage, which may force some textile mills to close down, as it has already done to some steel mills.

On the other hand, the textile trade both in this country and in England is very busy, and factories are booked for months ahead. The supply of December cotton is unusually small, particularly in the higher grades, for which the demand is keenest. When contracts for spot delivery come to be covered, it is by no means unlikely that a sharp advance will be registered that will carry cotton over the 40-cent mark.

The high price of silver is to be regarded as another bullish factor, as it greatly increases the buying power of the Far Eastern countries, notably India and China, where a proportionately large part of the shorter staple cotton will have to be disposed of. The crop this year, in addition to being smaller than most, has also turned out to be of lower average quality.

The Export Situation

Cotton exports are increasing, in spite of the growing handicap of falling exchange rates. European countries have apparently held off from buying as long as they could in the hope of lower prices and improving exchanging rates, but now they have entered the market for larger quantities than they took since the armistice.

If any of the plans, public and private, for the improvement of the exchange situation materialize, cotton should be among the first industries to be benefited, and higher prices should probably follow. Europe seems to be increasing its productive capacity and straightening out its difficulties with labor, and hence should be an increasingly desirable customer.

Figures recently published show that to date Great Britain has taken about its usual supply of cotton, France about 50%, Italy about 45%, and Germany about 9%. While these facts have been used as a bearish argument, as showing the their customary requirements of cotton, it seems to us that they represent the minimum of European buying power, and that the worst has been passed. Any effective plan that may be worked out will result in improving the purchasing power of the late belligerents, and in consequently greater exports of cotton.

In the local market the technical position of the market has been strengthened by the break of some weeks ago, which eliminated a good deal of the speculative element. It is likely that speculation will be further discouraged by the hostile attitude of the Federal Reserve Board, which has announced its opposition to speculation in commodities as well as in securities. With the trade as active as it now is, an advance would not seem unjustfied by current business conditions.

That this increased activity in the textile trades is expected to last for a considerable time indicated by the figures for new mill construction, which show that over 2,000,000 new spindles are being put up in the United States, in spite of the current high costs of mill machinery and mechanical labor. The outlook is for high cotton prices during the next few months at any rate.

Railway Equipment

THE railway equipment industry, like the copper industry, is principally engaged in marking time for the present, while confident of greatly increased prosperity within the near future. In both cases there is a huge potential foreign exchange market, and in both industries a heavy domestic demand is expected to show itself as soon as uncertainties are over.

To Dec. 4.

The foreign field for railway equipment, as recently summarized in a bulletin, issued by a prominent bank in New York City, is unprecedentedly large. On the other hand, American exporters of all kinds are handicapped by the heavy premium on the dollar.

Outlook for Crucible Steel

Great Asset Values Pile Up Behind Common Through Postponement of Dividends—Preferred Back Dividends No Longer a Vital Question—Uncertain Status of Balance-Sheet

CRUCIBLE STEEL will be remembered for many a day by traders and followers of the elusive tape for its performances toward the end of September and early October. Until then an ordinary good industrial, with a prepossessing previous record but at the same time "nothing to write home about," Crucible took the bit into its teeth and fairly ran away with the market, and after being once stopped, came back and repeated the performance.

What interpretation was to be given to these weird phenomena depended upon one's viewpoint. To the disgruntled short, it was merely a case of small floating supply, "oversold" short interest, and manipulation; to the bull, it was the sudden recognition of the true intrinsic worth of a hitherto neglected industrial.

In any case, Crucible undoubtedly has acquired an enthusiastic following. They point to the earnings record of the company for the last four years, its conservatism in the matter of common dividends, which were only initiated this year, and to certain increases of large size in inventory and property account, as well as to the small funded debt and the wiping out of accumulated dividends on the preferred stock, which, together with the scrip issue caused by them, had long been a sore point in Crucible's financial structure.

Crucible's Property

Incorporated in 1900 under the laws of New Jersey, the company began with thirteen companies as subsidiaries to which it later added three more including the Crucible Fuel Company, which owns about 4,500 acres of coking and steam coal in Pennsylvania. The company's plants produce and sell crucible and open hearth steel and iron. They turn out about 95% of crucible steel products of the country.

As shown by the accompanying table earnings have taken a great spurt since the war, although last year's showing is not as good as that for 1918. It is to be noticed that the 1919 figures represent the statement of Crucible Steel Company of America and its subsidiaries, while figures for previous years are for Crucible Steel Company of America alone. It is obvious, therefore, that the decrease in earnings for the last fiscal year was even greater than is apparent. Another point to be noticed is the decrease in the repairs and renewals account as compared with 1918.

The account for real estate, plant and intangibles such as good-will and trade-marks, which are all carried together, increased from $54,605,572 in 1918 to $85,168,741 for 1919. It is difficult to say what part of this increase is represented by intangibles, but considering that the property account had shown but slight increases in the preceding years and that new construction for 1919 did not exceed so greatly construction for previous years as these figures would imply, this item appears somewhat large. The same may be said about inventories which appear for 1919 as $27,605,896 and for 1918 as $18,908,356.

Part of the increase of the latter, however, is explainable because of the recent disclosure of irregularity in income tax payments by former company officials who are said to have undervalued the inventory account and previous balance sheets. The whole matter, however, remains to be adjusted by the company and the Department of Internal Revenue.

Working capital apparently shows a weakening in position over last year as for 1919 it amounted to $28,634,903, and for 1918, $25,845,307, an increase of about $2,800,000, while the inventories increased close to $9,000,000. Accounts receivable show a decrease of about $9,000,000, leaving $8,927,757 for the 1919 balance sheet. U. S. Government securities and cash show increases of over $1,000,000 taken together. On the preferred stock which is nominally on a 7% basis, dividends were paid irregularly between 1901 and 1916. In 1910 a payment of 10% in scrip was made account of back dividends. With the payment of 13%, however, in 1916, and 25¾% in 1917 arrears on the preferred were cleared off and the stock is now paying its regular 7% dividend.

Financial Structure

The company has no direct funded debt, but has outstanding guaranteed bonds, the Pittsburgh Crucible first 5's due March 1st, 1945, in annual installments of $250,000, each to the amount of $6,500,000.

The preferred stock is cumulative preferred as to assets and dividends and is issued in shares of $100 par. Of this issue, as well as of the common, there are outstanding $25,000,000, the total authorization. The scrip issue amounted to $2,443,650. It bears 3% interest payable annually and is redeemable at any time prior to June 30th, 1920.

The first dividend on the common was paid on July 31st of this year, at the rate of 1½% quarterly. On October 31st, 1919, this dividend was raised to 3% quarterly.

Position and Outlook

The company suffered less than most from both the steel and the coal strikes. Its high-grade crucible steel is in great demand at the present time and recently the plants were said to be working at 98% capacity. It is also known to have a large accumulation of orders and inquiries mostly for foreign accounts of which it is unable to dispose at the present time.

The new plant which the company was supposed to build at Midland, Pa., has been postponed until the early part of next year. When completed it will include a 600-ton blast furnace and 100 by-product coke ovens. It will be equipped with an electric hoist and a 10,000 K.W. turbine generator for its power house. This new construction should add considerably to the company's earning power.

From an analysis of the company's income and balance sheet statements

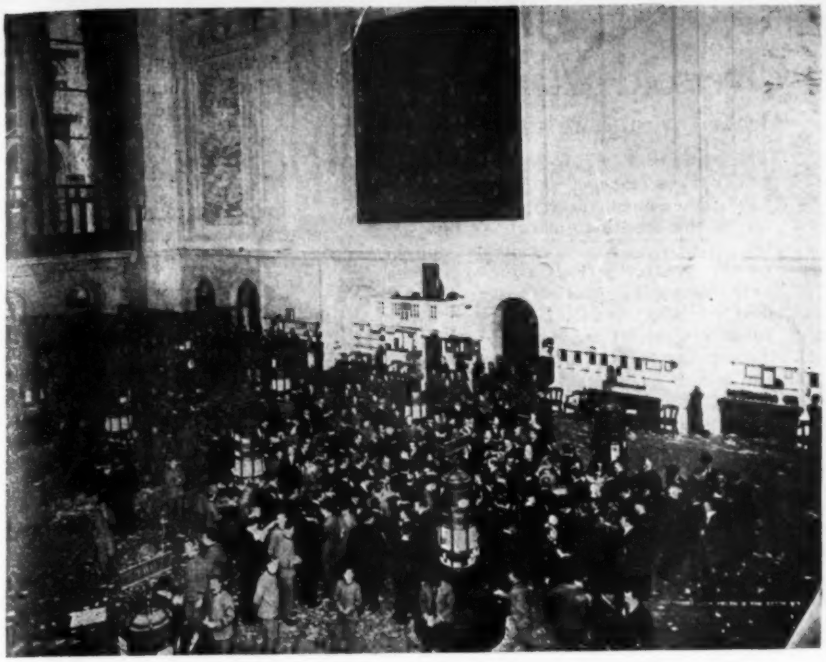
Year Ended Aug.31	Per Cent Earned Per Share on Common	Surplus for Year
1919	31.30	$1,449,208
1918	48.25	12,062,128
1917	42.12	4,719,858
1916	45.89	11,098,651
1915	5.39	3,073,751
1914	*2.84	*734,961

*Deficit.

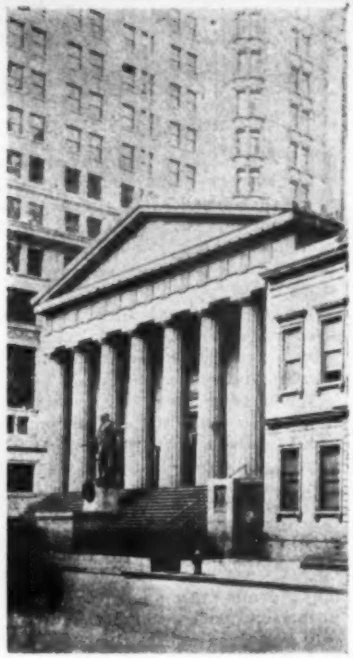
we are inclined to think that much of the enthusiasm for the stock of this company has overshot its mark and that the present prices represent considerable optimism as well as high present intrinsic values.

There has been considerable talk of a stock dividend for Crucible Steel which would serve somewhat to explain the bullish feeling that has helped lift it up so high. It is true that the capitalization of the company has not been increased for a very long time, while earnings and capacity have both shown great improvement. The present balance sheet of the company shows that it could undoubtedly use more liquid working capital.

The prospects for the early future are undoubtedly promising as soon as labor uncertainties in the coal and steel industries are completely cleared away. On any fairly sharp decline therefore, we think Crucible common may well be bought, although its extra-hazardous nature must be recognized.



THE NEW YORK STOCK EXCHANGE
No one is allowed on the floor except members and uniformed employes of the Exchange. The active broker, in his few hours on the Exchange, works harder than most people do in twice the time

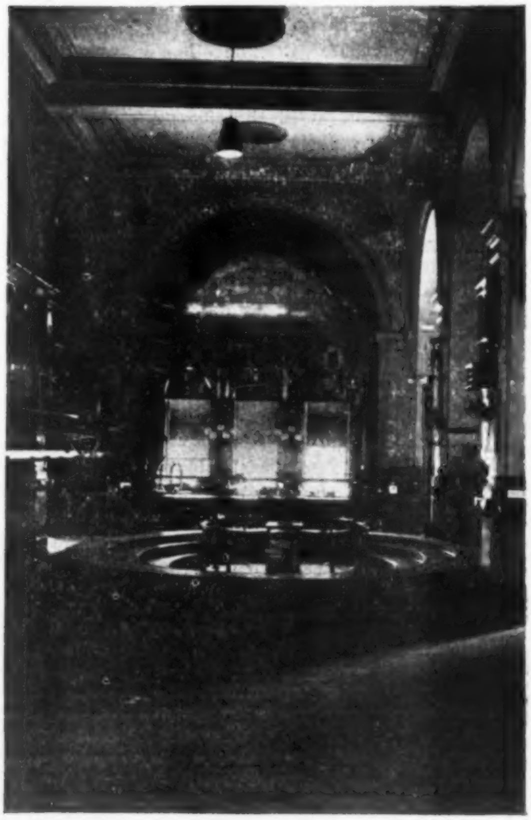


THE SUBTREASURY
Where the subtreasury now stands, Washington took the oath of office as President

WALL STREET

Wall Street is short geographically and reaches around the world financially. As most commonly used, the name applies to a section of New York where the banks and exchanges and the offices of the corporations which depend upon them are located

THE PRODUCE EXCHANGE
The business of this exchange includes dealing in all grains, cotton-seed oil, and a dozen or more other products. It was chartered in 1862 under the style of the "New York Commercial Association"



THE GREATEST COTTON MARKET
The New York Cotton Exchange provides means for financing most of the cotton crop of the United States and is the intermediary for facilitating its distribution. It was incorporated in 1871

Overbought and Oversold Markets

Their Causes and Symptoms—Other Investment Information

FREQUENTLY in financial pages of newspapers and magazines there are references to the expressions "overbought" or "oversold" markets, and the casual reader is sometimes mystified by the use of these expressions.

What is meant by an "overbought" market? What are its causes and effects, and how ascertained? What are the signs or symptoms?

When confidence in security values become so general that everyone purchases stocks up to the limit of their capital, when they have no additional funds with which to buy more, the market is considered in an "overbought" condition. Such a situation is an ominous one, for the market becomes susceptible to "bear" attacks, much profit-taking is in progress, and ultimately prices crumble.

It is only a question of time before a corrective movement of prices takes place, and the skillful trader who is familiar with the swings of the market can often find opportunities for profit in these changes.

There are definite signs which indicate an "overbought" situation. The symptoms to watch for are:

1. The market must, first, have had a tained advance.
2. Enthusiasm stimulated by the rise must result in increased volume of trading.
3. There should be several days of enormous activity with irregular price movements and no real headway of market.
4. Finally the market fails to advance further on publication of good news.

An "oversold" market has the following symptoms:

1. A protracted decline of prices must, first, have taken place.
2. Confidence in security values must show distinct evidence of having been undermined, with pessimism rampant.
3. Buying power, apparently, must be very limited.
4. Selling short becomes general as pessimism increases.
5. The market becomes very dull.
6. Finally, however, prices drop no further even on publication of additional bad news.

"Overbought" and "oversold" markets should be carefully watched for, in the first case to either sell stocks previously bought, or to sell short; and in the case of an "oversold" market to refrain from selling short, and to buy stocks. The pessimism caused by a severe fall in prices induces excessive short selling of stocks, and the stocks so sold must later be repurchased, at which time a vigorous recovery in prices takes place.

The phenomena described above refer to the month-to-month swings of the market. The same principles apply to the greater swings from year to year, excepting that deep-seated industrial and financial changes also enter into the latter. The year-to-year movements which culminate in high markets or in panics are caused fundamentally by industrial and financial conditions, but they display many of the same characteristics as the minor swings described above. The investor who is not in close touch with the market, but who attempts to take advantave of the small swings, is speculating. But even the straight investor should try to understand these phenomena so as to take full advantage of the longer market movements.

Why Bonds?

Don't let the name "bond" fool you. Every bond is not necessarily safer than every preferred or common stock—it is all a matter of the asset values, earning power and record behind each. A stock of a strong industrial company with a twenty or thirty years' unbroken record of dividend payments is preferable to a bond of a decaying public utility company on the very ground on which bonds are supposed to be strongest—security.

A "mortgage" covers a multitude of sins. A "first mortgage" bond of a railroad may be a first lien on a tenth of the mileage and a third or fourth lien on the rest. The first mortgage bonds of a holding company whose property consists mainly of securities of subsidiary companies may in the last analysis amount to a fourth mortgage on the actual physical property. When you see the term "prior lien" ask, "Prior to what?"

It is usually a danger sign when a corporation has to raise most of its capital by bonds rather than stocks. It is safer to be a creditor than a partner—a bondholder than a stockholder—but not when there are too many creditors.

If you have invested in bonds rather than in stock, it was for a good reason. You wanted safety—therefore you should regard safety as the prime requisite, and be more interested in added security behind your bonds than in an extra half per cent. of income.

Status of Industry a Guide

In deciding whether or not to buy a security, consider the position of the industry in which the corporation is engaged. For instance, remembering that public utilities and railroads have their income strictly regulated by public service committees, which are usually not over-friendly to the corporations, in a period of rising costs the wary investor should have known that their margin of profit would gradually diminish till it became a margin of loss.

On the other hand, consider the position of the oil industry. Demand is increasing at home at a prodigious rate, the foreign trade has scarcely been tapped, industrial methods are improving, and substantial interests have sunk large amounts of capital in it. In view of the long-range prospects of the industry, the stocks of any of the really good oil companies should be held for a long while.

Other things being equal, a company whose business is diversified is preferable as a risk to one which specializes. For instance, at the present time the mines that turn out nothing but copper are not so well off as those that produce silver lead and gold in addition, as while the market for copper is dull, the other metals are active.

The younger an industry, the bigger chance for profits; the older, the more secure. If an industry is fundamentally sound, every company engaged in it is not necesarily a good investment; an ideal purchase is the stock of a high-grade company in an industry which is suffering a temporary reverse, but is expecting a return to normal.

Fuel Oil in Transportation

THE coal strike has served to show the advantage to railroads of using fuel oil, which is mostly obtained through mechanical processes, in place of coal. The labor costs of oil are a negligible factor in the final price. Higher efficiency is derived from the use of fuel oil and many railroads, recognizing this fact, are substituting the oil-burning apparatus in their motive power.

Among the railroads now using fuel oil over the entire or considerable portions of their lines are:

Atchison, Topeka & Santa Fe Railroad.
Southern Pacific Railroad.
Kansas City Southern Railroad.
Northwestern & Pacific Railroad.
Western Pacific Railroad.
Florida, East Coast Railroad.
Chicago, Milwaukee & St. Paul Railroad.
Great Northern Railroad.
Oregon Short Line Railroad.
Texas and Pacific Railroad.
Chicago, Burlington & Quincy Railroad.
Chicago & Northwestern Railroad.
El Paso Southwestern System.
Delaware & Hudson Railroad (Adirondack Division).
New York Central Railroad (Adirondack Division).
Oregon-Washington Navigation Companies.
Texas Railways.

Building Your Future Income

The Attitude of a New Investor Who Faces a Loss in Liberty Bonds—Condemns Rails but Will Buy Them, Just the Same

AS a fledgeling at the great game of investment, we congratulate and welcome you. Investmentwise, you have a great future before you instead of a bunch of mistakes behind you. For this be thankful.

We suppose you have invested your little accumulation in Uncle Sam's Liberty or Victory Bonds, but if part of your money is also in the Anglo-French or French Republic, or in Japanese 4½s (even with German stamps on them), it would not affect the encouragement we are going to give you.

Apparently you have not sold out. You follow the quotations in the newspapers and see Liberties quoted from 100 down and feel a little bit sore. Your "jab" at the railroads at the end of your letter gives us the impression that the fluctuations—the downward ones—in Liberties have interfered with your usually serene temperament.

But, you are hanging on with a theoretical loss (familiarly called "a paper loss") staring you in the face.

There is never a loss until your bank account gives evidence of it. There is a great difference between a "paper loss" and a "realized loss"—yours so far is the flimsy kind and ordinarily does not mean much as we will show you.

THERE are two cardinal principles in correct investment. One is to choose the right kind of investment. The other is to get in at the right time if possible.

The Letter Which This Article Answers

"I PERHAPS am in a different position from other subscribers to the Magazine, in that I have never invested in stocks or bonds until lately when I bought war bonds which cost par and now show a big loss.

"I am trying to acquire sufficient information with the aid of the Magazine to make investments. Prices of stocks have all had a big rise (except rails which are rotten intrinsically), and after a big decline I intend to purchase some, but not until then."

Your war bonds, whether they be American, British, French or Japanese have the same number of people backing them as they ever had before; losses in war have changed the number, but the growth in population is already commencing to set that off. The security behind the bonds has remained the same—the resources and the word of honor of the nations involved. Have you any reason to believe that these have become impaired, or less valuable?

You doubtless read and studied carefully all the literature that accompanied the various bond emissions of this and other countries. If you did not, and invested in U. S. bonds on faith and out of patriotic motives, you would hardly have the right to complain—even if you sold at a loss, which on your own showing you are not compelled to do.

IF you have not read the literature, we may tell you that the highest rating that financial experts give any bond is Aaa. U. S. War bonds, according to our rating are in the class Aaaa; in other words, they have the absolute essentials of the highest type of security. Nothing is lacking as to the strength of the debtor (the nation issuing the bond), the amount of the entire authorized issue compared with the wealth and productive resources of the nation; the ability of the debtor to pay interest when due, and the entire debt when it matures. In the case of U. S. bonds the nature of the "lien," that is to say the security for the money, is a direct obligation of the nation and a first and solemn charge on all its resources.

Have you implicit faith in the issuer of your bonds? Are you sure he can pay interest and capital without a flutter of an eyelash?

If your answer is in the negative, there is only one thing to do. Get out and stay out. Turn your paper loss into an actual loss by selling. The

amount of your loss will show in your banking account.

Never try to calculate profits or losses until you have entirely closed out a transaction, which is no more than saying, "Don't count the chicks till they come home to roost."

We assume, however, your answer will be in the affirmative, and to admit the truth you are merely worried by the market quotations.

Seldom or never do market quotations reflect real values. Prices are nearly always too high or too low; we have never known them to be "just right."

GOVERNMENT bonds are far too low; lower than they have been in a decade, and we give you a graph with this reply that should convince you that you have nothing to worry about. When the market is drained for capital as a result of after-the-war reconstruction; when speculation is rampant and people sell their best bonds to speculate; when there is an orgy of high living, high prices, extravagant wages; when Liberty Bonds are swapped for talking-machines, pianos, autos, oil and mining "securities" of the High-Faluting Investment & Finance Corporation Unlimited, you mustn't be surprised that some people are foolish enough, or are compelled to throw their Government bonds on the market for any price that wiser people will pay.

If you must have the money, and selling becomes your only alternative, put off the need if you can. If it cannot be put off, go straight to your bank and tell the manager or cashier your trouble. Ask your bank to lend you about 75% on your bonds at 6%. Very few banks will refuse, and if you stand well in your community we feel sure the accommodation will be granted. Besides, it will be a good idea to let your bank know that you have some bonds salted away.

WE hope you will succeed in your study of investments. We are afraid that you are impatient. Your admission of "newness" at the game and lack of success so far is not surprising. Have you read our introductory article to "Building Your Future Income" where we compared the investment foundation to a cathedral? You will have to build your knowledge as cathedrals were built in olden times —stone by stone. Are you doing this?

You should take a supplementary course of study besides reading the Magazine. In your case we would suggest you read "How to Select Investments" or "What Every Investor Ought to Know" (Smitley). Our book department can tell you more about these.

"PRICES of stocks have all had a big rise." Yes, Crucible, Baldwin, Mexican Petroleum, Keystone Tire and others have certainly skyrocketted, but they are not the whole works. Have you taken a look at U. S. Steel, Smelters, Reading or Anaconda lately? They have done nothing to speak of, and we wonder whether you haven't got your eyes glued to the "specialties" rather than the "leaders."

We might say that "specialties" mean particular stocks usually closely held that mostly move independently, sometimes regardless of the market. "Leaders" represent the old-timers, stocks held by the public in general, and usually have a long record behind them. "Leaders" like Union Pacific, Anaconda, U. S. Steel and Reading haven't moved much when you come to think of it. A good many old-line investment issues are still selling at a reasonable price, and preferred stocks are still down.

You must admit that your facts are wrong. Make it a practice of looking at the whole market rather than a few spectacular performers like Crucible and Mexican Petroleum. These could advance 500 points without causing anything more than a mild sensation in the entire market; but—suppose U. S. Steel, American Smelting, Union Pacific, Reading and Utah were to move up about 25 points each, you would be justified in saying "Prices of stocks have all had a big rise."

WE notice you don't like the rails and don't blame you. We do not agree with you though that they are "rotten intrinsically."

"After a big decline I intend to purchase same." This is where you show inconsistency and mistake in methods. Do you happen to know how much of a decline the rails as a whole have had? Are you aware of the fact that they are now selling at or about the lowest prices in their history? The graph herewith shows this clearly, and you should make up your mind now where you believe they would become attractive.

The shrewdest investors do not try to buy stocks at the bottom. Rothschild said that he never tried to buy at the bottom, nor sell at the top, and we don't see how you can expect to "go one better" than Rothschild.

But, if you have decided that they are "rotten intrinsically" and believe this, you should not buy them at any price, since their internal state would not be improved with lower prices. If anything, a lower price would indicate something more fundamentally "rotten in Denmark," and you would be gambling—even against your own convictions—at that stage.

Have you looked into the situation thoroughly before making your decision as to the status of the railroads? Are you aware that Pennsylvania has paid regular dividends for over sixty years, New York Central for twenty years, Lehigh Valley for fourteen years, Northern Pacific for nearly twenty years, and Southern Pacific for twelve years? Baldwin, which has hardly started dividends, sells for 140, and Crucible which has just commenced at 240.

THE replacement value of the railroads is in most cases two and three times present market quotations; the big systems are all paying their regular dividends, and in cases like Union Pacific, Northern Pacific, Southern Pacific, Illinois Central, Chesapeake & Ohio—in spite of all their troubles—there is not a whispered suggestion that their dividends are in danger.

Low prices for a certain group of stocks, the rails for example, is an indication of trouble; but not a justification for forming a conclusion that all is lost—as you have done.

If you are convinced that an investment is radically unsound, as you appear to be in the case of the railroads, do not buy merely because the likelihood of lower prices will make it "cheap" because some stocks when they are "cheap" are often dear at any price.

In your case, since you did intend buying the rail stocks in spite of their apparent unsoundness, it would be far better to purchase the convertible bonds now rather than take the chance that you might miss lower prices. The arguments against their stocks would hardly "hold water" so far as the bonds are concerned—and by purchasing now, and holding, even through lower prices for the stocks you might still get your chance, and yet stand to benefit considerably by any improvement in the railroad situation.

If you agree with our plan, the bonds we have in mind are those listed in our "Bond Buyers' Guide"—a study of which disposes of the rest of your inquiry.

WALL STREET MAXIMS

No one is always right, but successful men are more often right than wrong.—*Thomas W. Lawson.*

Never sell stocks on account of a strike! —*Addison Commack.*

Little and often fills the purse.—*Daniel Drew.*

Express no careless opinions about securities; no one can tell what harm an unthinking word may do!—*Jacob Field.*

Great financiers never oppose general conditions, but they sell or buy according to their judgment as to the state of affairs, which will prevail months and even years ahead.—*Commodore Vanderbilt.*

When everybody is bearish, buy! When everybody is bullish, sell!—*Commodore Vanderbilt.*

When some one gives you a tip, do not act at once! Take time! Think it over! Secure the fullest information! Then act!!—*Louis V. Bell.*

The market will always do well enough as long as earnings keep up and money is easy.—*J. P. Morgan.*

Buy when every one is selling. Sell when every one is buying.—*Rothschild.*

Never be a bear on the United States. If you do, you will go broke.—*J. P. Morgan.*

What goes up must come down.—*J. J. Hill.*

Builders of Bridges

The Six Per Cent. Bridge and the Light Suspension Bridge —A Graphic Comparison of a Short Investment and Speculative Career

THE writer's observation of men and results leads to some observations:

(a) Any person can save money if he wants to.

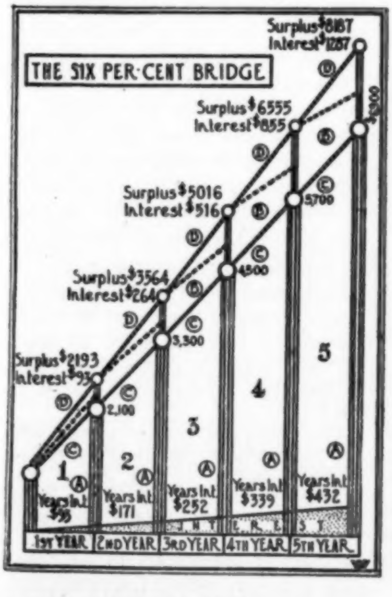
(b) If he cannot save, a good specific —but not a cure—is to concentrate strongly on what you would do if you were earning less. If I had a stentorian voice, Cato's oratory or Ruskin's pen, I would bellow, declaim or write: "You are deceiving yourself. You can save!"

(c) If you will not help yourself by saving, neither this book nor one thousand others can give you the the start that you owe yourself.

TABLE I
FIRST YEAR'S RESULTS

1. Paid into capital account..	...	1,000
2. Paid into savings account..	...	100
Interest for 11 months......	5.50	...
3. Paid into savings account..	...	100
Interest for 10 months......	5.00	...
4. Paid into savings account..	...	100
Interest for 9 months.......	4.50	...
5. Paid into savings account..	...	100
Interest for 8 months......	4.00	100
6. Paid into savings account..	...	100
Interest for 7 months.......	3.50	...
7. Paid into savings account..	...	100
Interest for 6 months.......	3.00	...
8. Paid into savings account..	...	100
Interest for 5 months.......	2.50	...
9. Paid into savings account..	...	100
Interest for 4 months.......	2.00	...
10. Paid into savings account..	...	100
Interest for 3 months.......	1.50	...
11. Paid into savings account..	...	100
Interest for 2 months.......	1.00	...
12. Paid into savings account..	...	100
Interest for 1 month........	.50	...
Interest on capital for 12 months	60.00	...
	$93.00	$2,100
Add accrued interest to capital and savings		93
Transfer to Second Year Capital		$2,193

(d) If you will save, you ought to become independent. If you start between twenty and twenty-five, you should achieve that goal at fifty. This is contrary to the average results shown on the graph herewith. But you are not one of the average, since you are studying yourself and others.



The Six Per Cent. Bridge

We have regarded an investment career as a journey up and over the bridge that gaps from poverty to independence, whose way is over the River of Doubt. Those who fall toward or into the strong current below, do not always drown if they have learned how to swim.

But the head must be held up and the face toward the opposite shore.

Each must build his or her own bridge, which is only another way of saying: "Each must be the architect of his own fortune."

Assuming, as a typical case, that the reader is able to save or has $1,000 and can set aside $100 monthly, let us consider how best to build a Six Per Cent. Bridge from Poverty Avenue to Independence Boulevard. If savings and income are less, the bridge will have to be smaller, but there's no reason why it should not be sturdy.

Graph "A" is the plan of our bridge. The commencement of the first span is shown, drawn to scale.

The girders, "A" represent the builder's golden material. He supplies $6,900 during the first span of five years —$1,000 cash and $100 monthly. The cross-bars, "B" show how his monthly savings strengthen the whole.

The cable, "C," his net investment of $6,900 suspends the bridge, while the outer cable, "D," representing $1,287 in interest makes the whole a formidable structure.

Those who prefer cold figures to graphs, can study Table I and II, which might clarify the idea.

The criticism that can be made is, that the method is slow. Perhaps it is. But it appears to be very sure, and is worth comparing with other methods which give quicker action.

The Light Suspension Bridge

Graph "B" is a speculative light suspension bridge, drawn after no particular plan, which instead of resting on a basis of six per cent interest is embedded in hopes, fears, tips and guesses.

The light suspension bridge is an irregular one, and the builder, seeming to change his mind very often, gives it fantastic shapes at times.

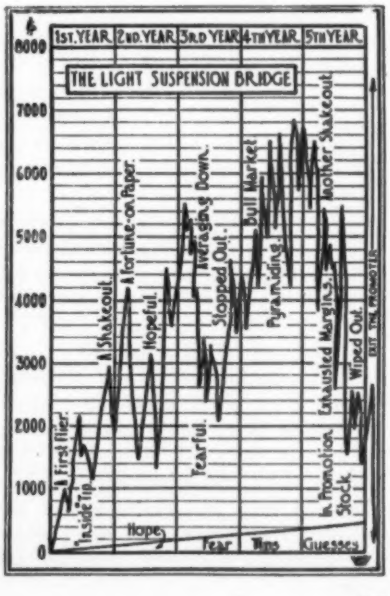
Frequently good progress is made. In the vernacular, the six-per-cent-man is "licked to a frazzle" at times, but the final result is always the same. In this picture I have drawn, the trend of the gambler's bridge is by no means so fanciful as it looks, and thousands who may read this will know of similar experiences—it will be the other man's experience.

In everything but shape it is a Bridge of Sighs.

Speculation may be good for those who have the correct plans and specifications, but these are very scarce, and if valuable at all, their owners would not give them away for any price one could name. At any rate, it devolves

TABLE II
RESULTS SECOND TO FIFTH YEARS

	2nd Yr. Interest Account 6%—$	2nd Yr. Capital Account $
Transferred from 1st year.......	.....	2,193
Savings 2nd year..................	.....	1,200
Interest on monthly savings......	39.00	.....
Interest on capital ($2,193)........	132.00	
	171.00	3,393
Add accrued interest.............		171
Transfer to 3rd year Capital....		$3,564
	3rd Yr. Interest Account	**3rd Yr. Capital Account**
Transferred from 2nd year......	.....	3,564
Savings 3rd year..................	.....	1,200
Interest on monthly savings.....	39.00	.....
Interest on capital ($3,564)........	213.00	.....
	252.00	4,764
Add accrued interest.............		252
Transfer to 4th year capital....		$5,016
	4th Yr. Interest Account	**4th Yr. Capital Account**
Transferred from 3rd year......	.....	5,016
Savings 4th year..................	.....	1,200
Interest on monthly savings.....	39.00	.....
Interest on capital ($5,016)........	300.00	.....
	339.00	6,216
Add accrued interest.............		329
Transfer to 5th year capital....		$6,555
	5th Yr. Interest Account	**5th Yr. Capital Account**
Transferred from 4th year......	.....	6,555
Savings 5th year..................	.....	1,200
Interest on monthly savings.....	39.00	.....
Interest on capital ($6,555)........	393.00	
	432.00	
Add accrued interest.............		432
		$8,187



upon their architect to do the "showing," and the writer's experience is that even the most plausible plan of a "safe," light suspension bridge has the proverbial Ethiopian among the girders, if one has but eyes to see.

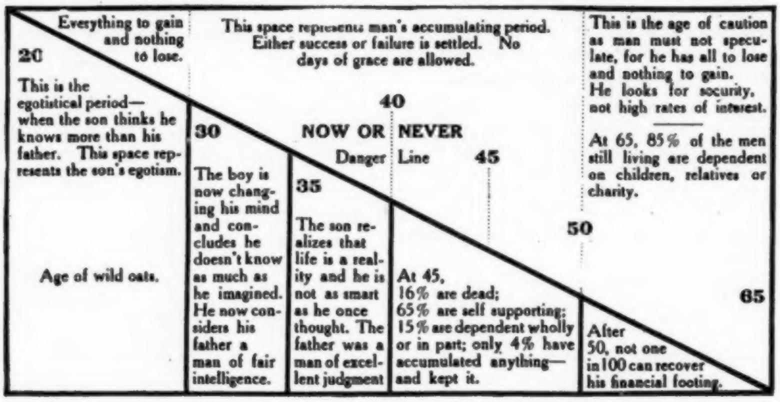
Helping the Tired Business Man

The average mind is superficial, and superficiality is first cousin to the tired feeling of not wanting to think properly. The truth of this can be proven by asking anyone what money will do at six per cent in ten years.

Conversation along these lines has been popular since the days when the old feudal barons collected their interest with the village dentist as secretary. It didn't work out so well in the dark days, but in modern times, six per cent is an institution that is part of ourselves, and the business man, apparently, should be familiar with its workings.

Starting with $1,000 and saving $100 monthly will bring $20,249 at the end of ten years, and this sum at six per cent represents an income of $1,215 annually. Table III shows the rise to power of His Majesty Six Per Cent.

The income on the accumulation is a trifle over $100 monthly.



This income is greater than the power that created it; the son has grown bigger and greater than the father since he doesn't need to put his own work behind the income—excepting to a nominal extent. He can now

TABLE III
THE ACCUMULATIVE POWER OF SIX PER CENT.

At the End of		
5th year	Brought Forward	$8,137
	Interest on Same	491
	Yearly Savings	1,200
	Interest Monthly on Same	39
6th year	Brought Forward	9,917
	Interest on Same	594
	Yearly Savings	1,200
	Interest on Same	39
7th year	Brought Forward	11,750
	Interest on Same	702
	Yearly Savings	1,200
	Interest on Same	39
8th year	Brought Forward	13,691
	Interest on Same	822
	Yearly Savings	1,200
	Interest on Same	39
9th year	Brought Forward	15,752
	Interest on Same	945
	Yearly Savings	1,200
	Interest on Same	39
10th year	Brought Forward	17,936
	Interest on Same	1,074
	Yearly Savings	1,200
	Interest on Same	39
11th year	Brought Forward	$20,249

take care of both, and lead them unerringly up and over the bridge, that leads to "Financial Independence at 50."

Points Income-Builders Should Know

THE importance of call money rates as a factor influencing the trend of the stock market, was strikingly illustrated when, as a result of the gyrations in these rates in recent weeks, a severe break in the prices took place. It was observed closely, perhaps for the first time by the public at large, that as "call money" was high or low the market moved in an inverse direction; down when call money went up, and vice versa when call money went down. For the first time, perhaps, in commission houses traders were more anxiously watching the quotations on call money than on stocks.

Large brokerage houses prefer to do their customers' financing by the use of "time money" borrowed from banks and financial institutions, and in normal times there is no great difficulty in getting a good supply three months ahead, at low rates of interest. But during bull markets, and hectic periods like the past two years, money has usually been loaned "on call" which obligates the borrower to return the loan when "called upon"—in other words, on demand. This method still prevails largely.

Hence, the loaning rate of call money varies according to the demands for funds, and the supply on hand available for that particular purpose. There may be a lot of money on hand and yet insufficient for loaning on Stock Exchange collateral. Recently speculation,in the opinion of the highest banking authorities, had gotten out of bounds. The rampant demand for stocks (not for investment, largely on margin for speculation) caused terrific advances, and the higher they went the more money would theoretically have to be applied to their collateral value. For example, if banks could loan $50 a share against a stock selling normally at $80, if that stock goes up to $120 the loan value increases to $70 a share or more in the same proportion.

The advance becomes a "vicious circle" that must correct itself; if it does not then arbitrary measures must be used. In the vernacular "the brakes are applied," loans are compressed at higher rates, and if demand for money continues, loans are further contracted at a still higher rate until it becomes too expensive to speculate on borrowed money. The rate reached a record high level of 30% for call money recently, and little money even at this rate was in free supply, hence the smash in the entire market in the middle of November.

Generally speaking few bull markets can be financed on dear money, and it has been one of the surprises of the year that prices advanced so high in spite of the relative dearth of call and time money at low rates. Abnormal war and post-war conditions have set off the handicap of dear money.

In normal times call money is in plentiful supply between 4% to 5%, indeed the rate has been as low as 2%, and when that happens a good market can generally be looked forward to.

The loaning rates on stocks which are published in the daily papers periodically apply to the rates which brokers must pay when they borrow stocks sold "short" by their customers. Whenever there is a general desire on the part of speculators to sell "short"

(periods of pessimism come along sometimes) instead of receiving interest for the money which they must pay for the loan of the various securities they must instead pay a premium. When a security is listed as "loaning flat" it means that no interest is being paid to the borrower; when it loans at six per cent. it means that there is sufficient stock for loaning purposes, and on the other hand when stocks loan "at a premium" it means that there is a scarcity of that particular stock available for loaning—the stock is then said to be scarce, and it usually indicates a "short interest" in the market. Often it is a warning signal that those who are short of the stock would do well to close out that commitment.

What Is Book Value?

The book value of a stock is usually figured by dividing the amount of stock outstanding into the accumulated surplus. The surplus may include the surplus appropriated for additional betterments as well as the free surplus. The point which should be taken into consideration is that many industrial companies make a large proportion of their assets in the balance sheet from good will, patents, etc. Accordingly it is always safer to eliminate these in arriving at a book value of the stock, making the result known as "net tangible assets." Having obtained the number of dollars per share of stock in the surplus, this should be added to the par value of the stock, giving its total book value.

It is difficult of course to figure the book value of a stock which has no par, but usually the balance sheet of the company gives an assigned figure for such stocks, depending either on the amount paid in originally on the stock or the original book value of the stock.

Dividends on stocks with no par value are almost always stated in terms of dollars rather than percentages. A stock with a par value of $50 paying 6% would give you $3. In stocks of par value other than $100 it is always much easier to deal in dollars rather than percentages.

Effect of Income Tax

An inquiry has been received as to the effect of the income tax on securities bought on margin.

The law would require you to keep a careful record of your net losses or net profits from all transactions, which are closed out by the end of this year, and these losses and gains would then be figured in your total income, as reported in the blank provided by the Internal Revenue Office. You would also figure in the interest which you have had to pay the brokers on your debit balance, as well as any interest received on bonds which you hold. You would not have to figure in, however, dividends received on stocks, as dividends are exempt from the normal income tax rate. If you pay super taxes, they would apply to the dividends.

The Ordinary Life Policy

By RAYMOND C. ELLIS

OF THE HOME LIFE INSURANCE COMPANY

Of the many different forms of life insurance policies designed by experts to meet the various needs meet his regular installments on his of individuals the ordinary life holds a position by itself. It is often more properly referred to as "Straight" or "Whole" life, for the appellation "ordinary" is a misnomer.

In no sense is this an "ordinary" policy; it is extraordinary in every way. It has done more than any other one form of life insurance contracts to provide food and clothing for otherwise destitute families, to give minor children an education and a chance in life, to cover mortgages and save the home from being sold under the hammer of the auctioneer, to afford a means of security for personal notes and obligations, to preserve estates by providing ready cash for the payment of inheritance taxes, and to assist men to establish themselves in business.

The ordinary life policy may be briefly described as that form of life insurance that gives the largest volume of permanent protection at the lowest annual deposit. The face of the policy is paid to the beneficiary only upon the death of the insured. The premium is level and may be deposited annually, semi-annually or quarterly.

Despite the great and invaluable service that ordinary life insurance has rendered to both individuals and the

LIFE INSURANCE IS NECESSARY
An ordinary life policy might have kept some of these children from the foundling asylum. There would be fewer institutions to maintain if all men carried insurance

State—for there would be fewer almshouses for the State to maintain if all men carried some kind of life insurance—it has many important and attractive features which are frequently misunderstood or unknown. It is not, as many believe, a narrow, inflexible, die to win proposition, adaptable only for men who see the shadow of death hovering about their heads and who carry the burdens of the world upon their shoulders, but, on the contrary, it is the broadest and most flexible contract known to life insurance. There is hardly a twist or turn that may occur in the circumstances of an individual that the ordinary life policy will not in some way meet and provide for.

Every form of life insurance policy has certain distinct advantages peculiar to itself, and while there are many in the ordinary life contract, they may be roughly divided under two heads:

1. It gives the maximum amount of permanent protection at the minimum annual deposit.

2. By means of its loan and cash values, paid-up policy, automatic extended insurance, and income options it is very flexible.

Under the first division—"it gives the maximum amount of permanent protection at the minimum annual deposit"—is found the great outstanding feature of ordinary life insurance. It is a policy usually taken for the benefit of some beneficiary or beneficiaries who are dependent upon the insured. No wholly selfish man can carry life insurance unless he carries it for distinctly business reasons or to save money systematically for himself, and of all the numerous life insurance contracts the ordinary life is the most completely unselfish form. The reward to the insured is not in a financial return to himself or herself (for women carry ordinary life policies as well as men) but in the peace of mind that comes to all who thoughtfully provide for those dependent upon their earnings should those earnings be cut off through their death—a certainty that every one faces, but the time of which is most uncertain.

The protection that the insured gives is permanent, not temporary, as under the various term contracts. Once the policy is in force it can never be taken away from him except for non-payment of premiums, and even in that event he is provided by law with a cash value, paid-up policy and automatic extended insurance—usually from the third year on.

The amount of permanent protection is the largest that can be gotten for the premium. For illustration: A man 25 years of age has a mother, or wife and family dependent upon his earnings. If those earnings were cut off they would suffer financially. By taking $200 a year and depositing it with

a certain company he can create an estate of $10,000, on the ordinary life plan, while if he placed it on the twenty payment life plan the face of his policy would be only $7,500, and if on twenty-year endowment only a little over $4,000. This deposit would in each case be materially reduced by annual dividends. It is self-evident that the ordinary life policy is by far the best proposition under such circumstances. At the same rate of saving elsewhere it would take nearly forty years to create an estate of $10,000.

It is a recognized fact that conditions change. A man may not have the same responsibilities in 1925 or 1930 that he has in 1919. But the ordinary life policy is flexible. It has many options. From the third year on it has a cash value, a paid-up policy and extended insurance. These may often be used in a very practical manner. For illustration:

A man thirty takes an ordinary life policy with a certain company for $10,000 and has an annual premium of $228, which is reduced each year by dividends. At the end of ten years he regrets he took ordinary life and wishes he had put the same premium in ten-year endowment. By surrendering his policy for its cash value at the end of the tenth year, which would be $1,201, he could treat it as a ten-year endowment to that extent, and have had the benefit of $10,000 insurance for ten years. If at this time he should desire a paid-up policy, he could discontinue his premiums and have a policy payable upon death for $2,610, thereby treating it as ten-year payment life. At the end of twenty years he could cash it in for $2,760, or discontinue his premiums and be insured for the rest of his life for $4,970.

If at any time after the third year the insured simply stopped depositing his premiums and refused or neglected to take out his surrender value in cash, or to take his paid-up policy, the company would automatically give him a term policy for a certain number of years, depending upon how long it had been in force.

Sometimes a man has taken a policy payable in a lump sum upon death, and later regrets that it is not payable to the beneficiary in monthly or yearly installments. The ordinary life policy has an optional settlement clause in it and the insured can arrange with the company to have the proceeds payable on some income plan.

The vast majority of people who carry ordinary life policies are under the impression that they must deposit premiums as long as they live. In many companies this is not so. Ordinary life policies may be "paid-up" and the premiums thereby ended by a proper application of dividends. To illustrate:

Assuming that the present dividend scale of a certain company is continued, an ordinary life policy taken out at age twenty-five could be paid-up in twenty-eight years, provided the insured leaves his yearly dividends with the company with the request that they be used to "pay up" the policy. This means that the premiums would cease at the end of twenty-eight years. The face of the policy would be payable upon death, but no more premiums would be payable. The number of years it requires to pay up a policy in this way depends upon the age. At forty it would, on the same scale, take twenty-three years, at age fifty, twenty years. If the insured died before the policy had become paid up the face of the policy plus the dividends would be paid to the beneficiary.

It is impossible to lay down any hard and fast rules as to who should and who should not take ordinary life insurance. It depends entirely upon circumstances, but it is difficult to make a material mistake with ordinary life because of its flexibility. For many years it has stood the test of time, and is recognized today as one of the finest life insurance contracts ever devised.

The next article will deal with the Limited Payment forms of life insurance.

Your Real Estate Problems

Buying a Home—Paying One-Third and Assuming a Mortgage—Comparison with Time Payments

By CLARENCE HORNE

IN purchasing a home for $6,500 is it desirable to pay a small cash deposit, of say $500, and let the seller "hold the bag" as to a large first and second mortgage? Or, is it desirable to pay a large cash deposit, say $2,600, and personally assume the liability of a substantial first mortgage—in other words, become your own financier? The latter plan has many advantages over the former, under certain conditions only. This article balances the factors pro and con.

THE previous article dealt with the advisability of the individual who is making a start in building a financial competence, purchasing or building a home on the instalment plan. The assumption was that an initial payment of $500 be made, the balance being paid in monthly installments; the conclusion reached was that such a purchase would prove both profitable and desirable if (a) the amount of money required and chargeable to "expense" as distinguished from the "investment" part of the total expenditures, i.e., interest, taxes, repairs, water rent, etc., were less than the amount required to pay rent in equally desirable quarters, (b) the purchaser could count upon his ability to meet all the requirements of the obligation to be assumed, (c) reasonable certainty existed as to remaining in the vicinity, and (d) the purchaser being in a financial position to protect the investment should income for any reason be shut off for a period of time by having a proper reserve.

The question is now asked: "Assuming a man has saved up a little more money and proposes purchasing a home for $6,500, paying in cash $2,600 and carrying the balance on a single first mortgage for $3,900; does he have any advantage over the man who would buy on the plan already considered?"

We Must Answer in the Affirmative

In the first place he will in all probability be able to make a much more advantageous purchase, and secondly, his "carrying" position will be much safer and lighter.

Considering the first advantage, there will be a broader field to select from for the reason that not all homes which might in all particulars meet the requirements of location, price, size, arrangement, finish, etc., could be purchased on the instalment plan. Assuming, however, that this narrowing of choice does not eliminate the home which would be given the preference, the question of price still remains. In very rare cases, if ever, will the owner sell on such liberal terms as for cash, or on a basis which will enable him to get all cash for his entire interest. If the purchase is made from a "home owner," he as a rule wishes to use the money for some other purpose, and does not care to assume any risk of again coming into possession of the property; if on the other hand the purchase is made from an "operator" or "builder," or a combination of the two, he as a rule requires in the business all the capital he can command.

In either case, if a single first mortgage for not to exceed two-thirds of the value of the property is taken, this is readily marketable under favorable conditions; if a larger mortgage or an additional mortgage is taken by the seller, he must hold same or sell it at a considerable discount—the discount must be anticipated before selling, and added to the price of the property.

Conversely, if he knows that the entire purchase price, above the amount of a conservative first mortgage, is to be paid in cash, he knows that his entire capital is to be released without the necessity of standing a discount (and also without carrying a contingent liability in the form of an as-

gned mortgage which he must guarantee in assigning) and he can therefore afford to make a closer price on the property.

Consider, now, the advantages in the "carrying position" mentioned above. In the previous article we figured the monthly financial requirements of the instalment purchase to be $75, of which $55 is "expense," and $20 "investment." Under the plan now being discussed the actual monthly requirements would be about as follows:

	Per Year
Interest on $3,900 @ 6%	$234.00
Taxes and insurance	130.00
Fuel	100.00
Water rent	15.00
Repairs and upkeep	50.00
Total for year	$529.00
Average per month	$45.75

Of course, in comparing for net cost, allowance would have to be made for the money actually paid out, $2,600, at 6%, amounting to $156 per year, as that rate could easily and safely be secured by the purchaser if the money had been invested in securities rather than the home. This amounts to $13 per month, and when we sum up we get a total which is the same as the monthly "expense" under the instalment plan.

It is the purpose under this heading to direct attention particularly to the fact that the actual monthly cash requirements are considerably less under the plan being considered.

While the obligation assumed does not call for any monthly reductions of the mortgage, and no immediate risk would be involved in not providing for same, we consider it highly proper to say here that good judgment dictates that some provision should be made for the eventual retirement of the mortgage, even though it be held by a "trust fund" or institution which may prefer to carry it permanently at the original amount. This should be done by building up a reserve by putting away at least ½% of the principal every month, and investing it in high-grade securities. While not an absolute necessity it is highly desirable that further provision be made for the immediate retirement (if advisable at that time) of the obligation in case of the elimination of income through death of the breadwinner, by carrying ample life insurance; this applies in the case of either method of buying that has been discussed.

What was said in the previous article regarding the advisability of having a reserve built up in the form of securities held, for protection in case of a protracted period without income, holds true also in the case of purchasing under this plan, though the need for such a reserve is not so urgent, nor would it be essential to have the reserve as large, as the month to month requirements are not so great—the requirements of meeting both principal payments and interest on a second mortgage having been entirely eliminated by the greater initial payment.

YOUR OWN HOME

There are right and wrong methods of financing the purchase of real estate. This series of articles shows the merits and defects of the various plans.

Reducing our conclusions of relative advantages of the two plans of purchase to a "nutshell," we may say that (a) a certain advantage does exist in the matter of larger choice of properties to select from in the case of the larger initial payment; (b) the entire actual saving of cost would be measured by a somewhat better price than in most cases might be obtained on the property—the apparent saving of the amount of the monthly installment on principal plus interest on the second mortgage cannot be regarded as a saving in cost of property by purchase under one plan over the other, being simply a question of paying to Peter or Paul; (c) a distinct month to month advantage lies with the man who purchases with the larger initial payment, as the amount he must be prepared to pay month by month is considerably less than that required in the case of the smaller initial payment; (d) the principal consideration which would commend the choice of the instalment arrangement would be the lack of sufficient funds available to make the larger payment to eliminate all but a first mortgage, while finding the immediate purchase advantageous as outlined in the previous article, even considering the probable saving which might be effected in purchase price by waiting till a larger amount might be paid down.

An Easy Method of Providing Farm Working Capital

By JAMES B. MORMAN

ASSISTANT SECRETARY OF THE FEDERAL LOAN BOARD

THE night of harsh credit conditions for farmers has passed. A new day has dawned in the era of farm financing. The Federal farm loan system has put new life into our national industry of agriculture.

I take it that the readers of The Magazine of Wall Street are familiar with the general outlines of the Federal farm loan system; how it was designed to encourage more productive farming by providing a safe investment for funds in tax-exempt farm loan bonds at 4½ and 5 per cent. interest. From both points of view the system has been very successful.

The first loan under this system was not made till March, 1917. At the close of business on October 31, 1919, the twelve Federal land banks had loaned $271,317,816 to 103,072 farmers, and 25 joint stock land banks had loaned $47,633,775 to 5,188 farmers.

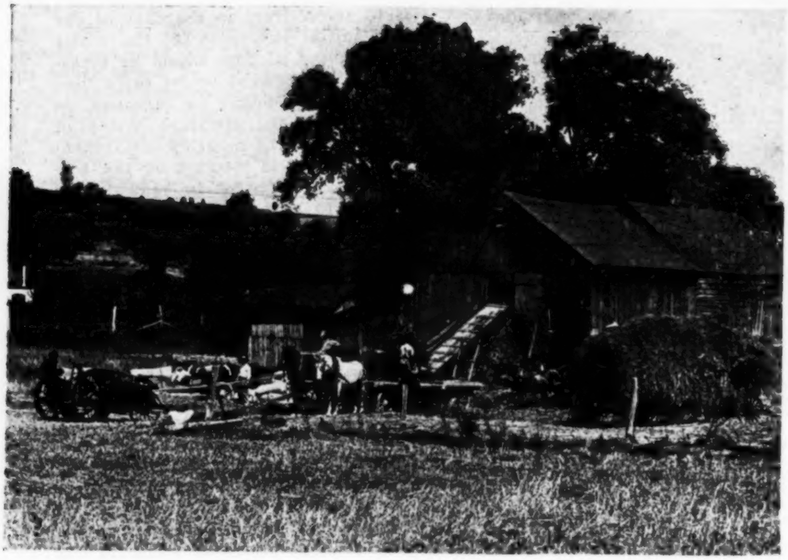
During this same period tax-exempt farm loan bonds had been authorized to be issued to the amount of $285,600,000 by the Federal land banks, and in the sum of $46,405,000 by the joint stock land banks.

In addition to these actual loans, the Federal land banks have approved loans to the amount of $322,187,210 to 124,765 farmers. These figures show the stupendous demand for funds to finance farmers and the ability of the new system to supply the demand. The reason is that farmers have an easy method of providing working capital and investors a gilt-edge, tax-exempt security. The bonds have sold on the market, even during the war period, at a premium ranging from 1 to 5 per cent. The system, therefore, has benefited bond brokers, investors and borrowers.

Money for Productive Purposes

The aim of this system is to encourage profitable borrowing only. Hence the law provides that a farmer may borrow for the purchase of equipment, live stock, fertilizers, seed, and other forms of working capital. At the same time a farmer may borrow to provide fixed capital—the purchase of land, putting up buildings, and making land improvements. But the active agents of productive farming are labor and working capital, and, by the intelligent use of these factors, the farmer must expect to receive increased returns.

In economic studies of successful farm management it has been found that there is a proper relation between working capital and fixed capital. It is the height of folly to tie up all one's funds in land, buildings and improvements. These do not directly produce crops or live stock. In fact, they depreciate in value with use or disuse. But they are the necessary foundations for the use of working capital and, together, they lead to increased returns under a proper system of farm management.



INSUFFICIENT FARM BUILDINGS CAUSE LOSS
The photograph shows a group of native miners at the mouth of one of the Cerro de Pasco workings. Silver has been produced in the district properly.

A considerable loss is often incurred, however, because the farm buildings are not sufficient to shelter crops and live stock properly. For this reason the farm loan system permits a borrower to use part of his loan for the construction of buildings whenever he has sufficient operating capital for the proper conduct of the farm. These two forms of capital should be approximately balanced to the size of the farm, but a loss may be sustained instead of a profit as either one is out of all proportion to the other. Under ordinary circumstances working capital should equal about 20 or 25 per cent. of the total value of the farm.

When farmers apply for loans they must state the purposes for which the money is to be expended. This is particularly the case when farmers borrow through national farm loan associations. This is a corporate organization composed of not less than ten farmers. There are now nearly 4,000 of these associations. These organizations can borrow of the Federal land banks only. They are co-operative in character. Their function is to critically examine the purposes of loans. No loan is approved unless it is evident that the borrower will be able to meet his regular instalments on his loan, will increase his income to provide for depreciation of working capital, and will be likely to make a substantial profit.

Working Capital and Increased Returns

The conditions under which a farmer can borrow to provide himself with working capital has a very important relation to the profitableness of his farm. If one has the privilege of borrowing on long time, at a comparatively low rate of interest, and with an easy method of repayment, his prospects of profit-making are vastly superior to those of a farmer who borrows under less favorable conditions—such as on straight mortgage, short time, and high interest. For, with the first conditions, the increased income can be used to extend his working or fixed capital as necessity demands, thereby improving the conditions for productive farming. But, under the second conditions, provision must be made for paying the mortgage when it becomes due, for the payment of renewal charges in case the mortgage cannot be paid off, and for paying a large sum in interest during the period of the loan. These conditions prevent the farmer from using any profit for increasing his working capital.

Under the farm loan system the rate of interest now charged by the Federal land bank is 5½ per cent. and by the joint stock land banks 6 per cent. But all loans must be made on the amortization plan of repayment—that is, loans are repaid a little at a time. A loan may be made for five years up to forty years at the option of the borrower. Most loans are now made to run thirty-four years. But since the law permits a borrower to prepay a part or the entire balance of his loan after five years, the period of a loan may be shortened to conform to the prosperity of the borrower.

That there is a close relation between an easy method of providing working capital and increased returns is shown by the fact that borrowers under this system are able to meet their payments promptly. Of a total amortization instalment matured to October 31, 1919, of $13,848,304, and due the Federal land banks, the total delinquencies amount to only $181,806, or 1.3 per cent. More than half of these defaults in payment are less than thirty days in arrears, and many of them are among farmers in drouth-stricken areas who have had partial or complete crop losses for two and even three seasons in succession.

Improving Home Conditions

A few years ago the Country Life Commission appointed by the government to study rural life came to the conclusion that better credit facilities for farmers would mean an improved social life in rural communities. The Federal farm loan system has proved that this conclusion was correct. Much improvement has already been brought about in rural home life by the better credit terms now granted to farmers. This is the unanimous opinion of the Federal land bank presidents who have just closed an interesting conference at Washington, D. C.

Let me conclude by outlining a few of the ways in which the larger income of farmers as a result of an easy method of procuring working capital has improved rural life conditions:

A farmer's family is better fed and clothed; the home is supplied with more modern conveniences; good books and high-class magazines are added to the usual farm papers taken; and labor-saving devices have removed much of the farm drudgery. Moreover, the whole trend of rural social life is upward. Life on the farm is made more attractive. Cash takes the place of credit at the country stores. The general welfare of the community is improved.

This is no dream! These conditions have actually been brought about by the new credit system which grants loans to farmers at a low rate of interest, on easy terms of repayment, and for productive purposes. Farmers and their families, country merchants, and rural communities feel the uplifting influence of the Federal farm loan system which has been sowing its benefits broadcast for two and a half years throughout the United States.

FEDERAL SHIP LOAN ACT NEEDED MARITIME DEVELOPMENT

The suggestion that there be a Federal ship loan measure adopted has been made by C. W. Morse, who said:

"This country has seen the favorable result of a Federal Farm act. Why not a Federal Ship Loan act, by which the capital for maritime development would be provided? Have standard forms of investment based on ship mortgages. Establish a Federal Board to co-operate with the Federal Reserve system, whereby bankers can rediscount ships' paper and issue ship loan bonds. In the Federal Farm Loan act the Federal Farm Loan bonds are instrumentalities of the Government.

"If America really wants an American merchant marine let her copy all of the good points of British policy which has enabled Britain to dominate the seas without subsidizing, let the American Congress put the resources behind the American Merchant Marine and through the Federal Ship Loan act permitting the issuance of ship loan bonds as instrumentalities of the United States Government encourage Americans to put and keep the American flag on the seas."

Investors' Indicator of Public Utilities

The **dividend rate** given covers regular declared dividends on yearly basis. Extra or stock dividends are noted from time to time in the comment column on the right, which also summarizes important price-affecting factors. The **yield on price** is based on regular dividends and the last reported sale or bid price before going to press. A minus sign before earnings' columns indicates a deficit for the year in dollars per share.

Company	High 1916	Low to Date	Recent Price	Present Div. Rate	Yield on Recent Price	Dollars Earned Per Share 1915	1916	1917	1918	Earned Last Fiscal Yr. on Recent Price	INTENDING PURCHASERS should read all notes carefully and consult "Financial News and Comments." We gladly answer all inquiries of yearly subscribers.
Amer. Lt. & Trac.	...	...	210	10†	4.76	24.62	25.66	20.98	14.43	6.87	Cash dividend well secured.
Amer. Power & Lt.....	...	...	61	4	6.55	4.21	6.27	4.57	....	...	Improvement in net; good management.
Amer. Pub. Util.	...	...	10	0	0.00	3.83	5.35	7.18	—.06‡	1.22	Suffering from high costs; expanding business.
Amer. Tel. & Tel.	124	90	99	8	8.08	9.09	9.61	9.65	9.93	10.03	Maintenance and management high grade
Am. W. W. & El. 1st pfd..	...	...	52	7	13.46	9.57	10.18	12.96	10.73	21.10	Doing fairly well despite higher costs.
Bklyn. Edison	131	87	97	8	8.24	11.66	11.88	8.81	9.28	9.56	Margin above dividend narrow; outlook should improve.
Bklyn. Rpd. Trans......	94	15	15	0	0.00	7.40	7.53	6.97	5.52	38.00	Outlook far from encouraging; needs relief.
Cities Service	488	100	409	6a	1.22	15.27	36.74	60.73	61.67	15.10	Aggressive oil development.
Columb. Gas & Elec...	65	25	63	4	6.35	.76	2.31	5.87	6.40	10.16	Greatly helped by oil and natural gas developments.
Com. Pr. Ry. & Lt......	...	...	22	0	0.00	7.42	8.80	5.77	—.03	....	Net earnings and property generally expanding.
Cons. Gas of N. Y......	145	76	87	7	8.04	9.29	8.99	7.14	5.74	6.60	Handicapped by high costs but strongly protected.
Detroit Edison	149	98	113	8	7.08	13.70	14.61	10.28	9.08	8.04	Large equities; management conservative.
Detroit Unit. Ry.	128	70	97	8	8.75	15.69	23.05	14.50	12.96	13.70	Earnings should be helped by fare increases.
Laclede Gas	104	45	45	0	0.00	9.24	11.21	8.58	4.53	10.06	Recent rate increases should improve position.
Mackay Co.	91	70	72	6	8.33	5.28	5.36	6.35	5.87§	8.15	Dividend not covered by wide margin; heavy investments.
Montana Pr.	115	41	58	3	5.17	2.73	8.52	7.08	6.19	10.66	Set back temporarily; long range bright.
North Amer. Co.	76	39	55	5	9.09	6.06	7.26	6.05	5.38	9.80	Good properties; traction situation adjusted.
North States Pwr.	...	...	65	0	0.00	3.22	5.91	2.11	0.00	....	Improvement in recent earnings; promising property.
Ohio Cities Gas	144*	31	49	4	8.16	1.92	2.30	6.16	7.58	15.43	Oil developments dominant; big equities.
Pacif. Gas & Elec.	75	45	60	5	8.33	10.48	9.10	5.57	5.20	8.66	Large assets; expanding and promising property.
Pac. Tel. & Tel........	44	17	36	0	0.00	0.56	1.25	1.79	2.00	5.56	Earnings holding up well.
People's Gas Lt. & Coke	118	35	35	0	0.00	8.39	5.39	—.95	—3.55	....	Difficulties as to rates, in every way.
Phila. Co.	47	21	31	3	9.67	4.44	5.14	6.22	4.26	13.74	Showing good growth; large oil prospects.
Pub. Serv. Corp. N. J...	137	70	70	6	8.57	7.88	10.60	7.92	6.10	8.72	Effects of higher costs alleviated by increased fares.
Rep. Ry. & Lt.	...	...	15	0	0.00	2.97	3.55	5.88	—0.02	....	Severely affected by increased costs.
So. Cal. Edison	89	73	88	7	7.96	6.71	8.61	8.38	7.55	8.58	Doing very well and has good promise.
Stand. Gas & Elec. pfd.	...	...	41	4b	9.75	3.15	5.03	3.70	3.34	8.15	Paying off back dividends; extensive oil plans.
Third Ave. Ry.	68	12	14	0	0.00	4.19	5.98	—10.02	—2.75	....	In very uncertain position; increased fares needed.
Twin City Rapid Transit	90	39	44	4	9.10	6.83	9.22	6.04	2.19	4.98	Earnings improving; plan for new franchise and higher fares.
Unit. Lt. & Ry.	...	...	42	4	9.22	2.41	4.41	8.68	6.51	15.48	Good earner and promising property.
Unit. Ry. Inv., pfd.....	39	10	19	0	0.00	3.06	3.54	4.46	3.38	17.89	Improvement in controlled companies helps.
Western Power, pfd.....	...	...	74	6c	8.19	10.86	9.58	9.36	11.96	16.16	Operates important growing territory; Cities Service sudsidiary.
Western Union Teleg...	105	76	89	7	7.86	10.19	13.59	14.40	11.64	13.10	Large assets; business showing heavy expansion.

* Par reduced from $100 to $25 in 1916.
† Stock extra 2½ per cent.
‡ 1919—12.15.
§ 1919—5.80.

a Stock extra 9¾ per cent.
b Stock extra 13 per cent.
c Dividends accumulated 12½ per cent.

The Situation of Underlying Public Utility Bonds

By J. C. ARKWRIGHT

ONE of the most prominent features of the upheaval which has come about as a result of the war is the enormous increase in the profits of many industries and in the earnings of numerous individuals, particularly those classed as hand, rather than brain, workers. The gain in income has frequently been such as to far outdistance the tremendous advance in the cost of living. Now this gain, were it to extend to all classes of industries and workers, would imply that the national productivity had likewise made revolutionary progress. As a matter of fact, we are probably producing little if any more goods or services, in the aggregate, than we were five or six years ago. Then whence the exceptional prosperity noted all about us? A correct, if not entirely complete answer, is that it has been brought about at the expense of certain elements in our industrial scheme of affairs. Among them are what is termed the salaried class, the holders of securities bearing fixed returns, the railroads and the public utilities. In the present discussion we are concerned with the last of these, the utilities and indirectly with the second class, the holders of their securities.

The primary cause of the difficulties of the utilities has been, of course, the comparative inelasticity of their rates, involving delays and complicated negoitations in order to secure relief. The rise in operating costs has been cumulative, and has proceeded at so rapid a rate that even were the utility companies entirely unhampered as to rates it would have been a different matter to adjust charges to meet changing conditions. The utility manager is in a very different position from the storekeeper who can change his prices from day to day, if necessary, to meet the shifting conditions in his trade. He operates a service, usually monopolistic in character, by virtue of a franchise representing a grant of certain public powers and privileges.

Under these circumstances, it is entirely proper that changes in the rates charged for service should be permitted only after a full public presentation of the case, with opportunity for representatives of the municipalities affected to be heard. This is not to say that indefinite delays and unimportant quibblings are to be tolerated at a time when properly capitalized and managed utilities are facing receivership.

At such a time it is very hard for the investor to be patient. I think he is most unwise, however, to sacrifice securities which are intrinsically sound at the ruinous prices now prevailing. By intrinsically sound, I mean that the bond in question shall be clearly covered by tangible assets, that the utility shall be furnishing an indispensable public service, and that it shall not be subject to competition which it cannot meet, such as a surface line which has permanently lost its patronage to an elevated or subway route. Eventually, it would appear, justice, or an approach to justice, will be done to holders of this class of securities, although temporarily loss of income and marked depreciation in market values puts them to severe trials.

In the first place, one should keep in mind the reputed fairness of the American people. It sometimes seems that this spirit of fairness is somewhat of a myth but there is much reason to believe that the fault is often lack of understanding rather than actual desire to take an unjust advantage. In the case of utilities, the situation has frequently been aggravated by the cheap politics with which our municipalities are infested. The demagogue, seeing a chance to pose as the champion of the oppressed, has fought rate increases tooth and nail and by half truths and allusions to previous scandals and mistakes of management has made himself very dangerous. For a while his efforts seemed successful, but the cold white light of publicity and the usual honesty of the state commissions have frequently brought relief. The experience of Toledo, where the voters ousted the trolleys and then found themselves without means of transportation is an example of how radical methods defeat their own ends. It is likewise an example of the utterly chaotic condition of utility rates and operating costs. Nothing is stable and permanent solutions of the problem are almost impossible at the present time. All that can be expected is an approximate adjustment to act as a stop-gap until greater stability in operating costs are brought about. In hundreds of case, relief has been granted. In others it is pending, and in all it has received publicity showing the absolute necessity of rates which will sustain service for the benefit not only of the security holders, but of the companies' patrons.

The insertion of a fixed rate in a franchise has produced a situation somewhat more complex than the usual one, as in New York where the Interborough Rapid Transit Company contracted with the city to carry passengers at a five cent fare. It appears that the Public Service Commission lacks the power to abrogate a contract of this kind and it becomes a matter of negotiations between the company and the city, with the latter holding the whip hand. Even here, after a deadlock of many months, there is some evidence now that the two interests may get together and compromise. At any event, the question of utility rates has become a live issue. The inertia of public and official apathy has been overcome and the imperative need of constructive action has become plain to all. Some securities will never come through the readjustment period intact, but for the most part they will be those issued as a result of improvident management. Actual value of the property devoted to the public service will become a factor of increasing importance and concessions will have to be made by the utilities as well as the municipalities. It is not unlikely, however, that a few years from now the utility industry may find itself on a more stable basis than ever before, though with smaller opportunity for high profits, as a result of enlightened legislation, cost of service agreements, etc.

In the following paragraph, the position of some of the best known underlying public utility bonds is presented.

As previously mentioned, the Interborough Rapid Transit company has come to grief through a fixed fare agreement. Unless relief is given before January, 1920, receivership and default upon the refunding 5% bonds and **7%** notes are expected. The current quotations of 55 and 68¼ have at least partially discounted

(Continued on page 158)

Railroads Need Fresh Capital Constantly

"The old system of regulation stands condemned by the rapid decline of investment in railroads, if by nothing else. Following are the amounts of new capital going into the roads annually prior to the war:

1911	$808,000,000
1912	680,000,000
1913	478,000,000
1914	584,000,000
1915	311,000,000
1916	268,000,000

"The urgent demands of the railroads for a constant inflow of fresh capital were well illustrated by Judge Lovett in his testimony before the Newlands Committee two years ago. During the twelve years of Mr. Harriman's administration of the Union Pacific, $119,000,000 was spent for double tracking, new lines and additions and betterments and equipment, and after Mr. Harriman's death in 1909, it was commonly believed that the property had been completely rehabilitated. Nevertheless, in the succeeding eight years the Union Pacific management found it necessary, in order to keep the system abreast of the demands of commerce, to spend $193,000,000, or $74,000,000 more than Mr. Harriman had spent in the preceding twelve years."

—*National City Bank*

Bright Future For Silver

Silver a Commodity—What Forces Have Caused Advance in Price—The Future of Production and Prices—New York as Leading Silver Market

By SRINIVAS R. WAGEL

Mr. Srinivas R. Wagel, the writer of the following article, knows the silver situation as few men in the United States can even hope to. He has had extensive experience studying the financial system and conditions of the Far East, being an author of international reputation. His works are as follows: "FINANCE IN CHINA," "CHINESE BANKING," and others. At present he is engaged in the silver and bullion business of New York, where he is generally regarded as a leading expert. He has also been quite prominent in the efforts made in recent months to establish a Silver Exchange in New York, and has written a remarkable pamphlet outlining a plan for the establishment of such an Exchange, and in addition giving the reasons, objects and advantages for such a step.

WE often hear it said that "every dog has his day," and to this saying not even silver is an exception. For years since 1873, when silver was "stabbed in the back," it was a despised metal to the western nations.

But the year 1918 marked the "turning point in a long lane." Silver advanced above the $1.00 level per fine ounce, and Governments began to wrangle to secure enough for their purposes and subjected silver to almost as rigid a system of control as gold, the acknowledged standard of value for most of the world. The 1919 history of silver is even more interesting, and may be dedicated as "the year of silver's glory."

Silver and Other Commodities

In explaining the sharp advance in silver, it is necessary to make clear at the outset that silver is a *commodity.* Excepting in India and China and a few minor nations of the world, gold is the standard of value. We should, therefore, look for the causes in the rise of silver in the factors that have induced such a phenomenal advance in the general level of commodity prices the world over.

How much have commodity prices risen from their pre-war levels? Measured by Bradstreet's index number of wholesale prices, commodity prices in the United States advanced about 130% from July, 1914, to their highest point in July, 1919. British prices, according to the Economist index, advanced a little more than 160% from July, 1914, to their high point, and the advance in the case of France, Italy and other nations has been even greater.

Now what has silver done? Considering the monthly average prices in New York, silver sold for 54.68c. a fine ounce in July, 1914. In spite of the general ad-in July, 1914. In spite of the general adaverage price of silver did not rise above this level until December, 1915, when the average was 54.97c. Then started an almost uninterrupted upward movement to 75.76c. (monthly average) in December, 1916. The rising tendency continued with a few slight recessions until the average monthly price rose to 100.74c. in September, 1917.

Prices then turned downward, but the year 1918 saw the resumption of the upward movement on an unparalleled scale. Late in March about 98c. an ounce was being paid, and on April 23, Congress passed an act fixing the maximum price at $1.00 an ounce. Before the end of May, as much as $1.02 and $1.03 an ounce was paid. On June 1, 1918, Congress passed another act fixing the maximum price at $1.01½ an ounce and restricting exports only to those necessary for the prosecution of the war, whereas under the earlier legislation, exports were permitted only under license.

The removal of all restrictions on prices and shipments was a signal to higher prices. By the end of May, silver climbed to $1.21½ a fine ounce, then it declined to about $1.04 in June, advanced to around $1.06 to $1.11 an ounce in September, from which figure it advanced to its high record of $1.38½ in New York and $1.39 July, 1914, to a high record of $1.38½, New York is about $1.32 a fine ounce.

Silver, then, advanced from 54.68c. in July, 1914, to a high record of $1.38½, or very close to 130%, which singularly enough corresponds almost precisely with the advance in the general level of commodities in the United States, as measured by one of the most authoritative indices. Silver has, therefore, not been exceptional in its price movements since the beginning of the war as compared with other commodities, of which it is really one.

ting from the discussion any reference to the depreciated purchasing power of money (gold), advancing prices are to be accounted for by an increased demand to which production does not respond, or a constant demand against which there is a declining output. The situation as to silver has been one in which production has been declining in the face of a rapidly expanding demand.

There are very few pure silver mines in the world, and most of the white metal is produced as a by-product in the treating of lead, copper and lead-zinc ores. About two-thirds of the silver produced annually in the United States is derived as by-products in the treatment of such ores, and it is significant that the product from pure silver ores is decreasing relatively, as well as absolutely. The Mexican and Spanish ores are mostly silver-lead ores. The only really large production from silver ores is in the Cobalt (Canada) region, where production is reported to be definitely on the downward trend. It is necessary to add that a silver mine suffers much more rapid depletion than a copper or lead mine, and that the ore reserves are usually limited compared with those in other types of mines.

The world's production in the three years ended December 31, 1918, is presented herewith by principal countries. Figures are in terms of fine ounces.

Examination of the table shows clearly that the production of the United States and Canada is on the down trend. The world's 1918 product is off more than 30% from the 1913 figure of 225,000,000 ounces. As so much of the white metal comes as a by-product in the treatment of copper, the present situation as to the latter metal may mean a further curtailment for a while, and we shall have to rely on Mexico and South America to make up the deficit. The fact of the matter is that the rich known mines of the world have been pretty much worked out, and at present none of remarkable character are in sight. Some inferior mines whose cost of production is high, could

WORLD'S PRODUCTION OF SILVER
(In Ounces)

	1918	1917	1916
United States	67,900,000	71,740,400	74,414,800
Canada	20,000,000	22,151,000	25,459,700
Nexico	50,000,000	31,214,000	22,838,400
Spain	5,000,000	4,500,000	4,517,800
Peru	15,000,000	10,000,000	10,787,000
Rest of the World	23,100,000	23,397,300	23,160,200
Total	181,000,000	173,002,700	161,177,900

Decreased Production and Why

Let us now turn our attention to an examination of the causes of this tendency in the prices of silver. Fundamentally prices are determined by the interplay of the forces of supply and demand. Omitting be worked as long as prices remain at present levels, but otherwise would have to shut down. Incidentally the cost of production has jumped decidedly from pre-war figures, and labor has been a very serious problem.

The prospects seem to be that although we shall have a larger production in 1919 than in the past three or four years, it will be quite a while before we go back to the 1913 total.

Increased Demands

While production for the past few years has been downward, the demand for silver on the other hand has been moving upward. These enlarged requirements have been due to the withdrawal of gold from circulation by practically all western nations to act as cover for their largely expanded note issues, the increased imports from the Oriental countries, whose materials were needed to carry on the war when we could not send them commodities to partly offset this increase, and the larger use of silver as coinage along with the hoarding of Europeans.

The chief component in the demands increasing the need for the white metal was the larger trade balances in favor of China and India. The standard of value of these countries is silver, and they prefer silver or goods to settle their trade balances. Gold does not mean as much to the Orientals as it does to the western nations, excepting for ornamental purposes or to be hoarded.

These favorable trade balances to the Far East are not a new phenomenon, but on the contrary are quite the usual state of affairs. They were, however, exaggerated during the war period by larger purchases from the Orientals while the Western world had no commodities to exchange, and even if the Eastern Nations would take gold, it could not very well be sent. To add to the difficulties the embargo on gold and silver made any shipments impossible for some months.

It would be of little avail to trouble with the actual statistics of the trade balances favorable to the Far East, for these are offset by credits and many other items and transactions which must be considered in arriving at the probable amount of the precious metals that must actually be shipped. Nor have we space to discuss the vast details of how the American Treasury came to the assistance of Great Britain, and saved what might have developed into a very serious financial condition in India.

What About the Outlook?

The future of the silver metal will depend upon the discovery of new sources of production. I have already spoken of the depletion of the world's mines, the failure to discover to date any others of great wealth, and I believe that we can not look for any very substantial increase for a few years.

On the other hand, demand will continue intense for at least ten years more, mainly for coinage and to provide metallic reserve to cover the greatly expended note circulation of India. I am inclined to the opinion that some kind of bimetallism, legalized bimetallism, must eventually come. The world's supply of gold has passed its apex, and in time silver will replace paper in some measure as currency, and more and more gold will be drawn out of circulation as reserve for note issues. When bimetallism actually comes, the value of silver will depreciate, assuming of course that community prices advance or remains constant, but otherwise, I believe that, as a commodity the price of silver will not show any sustained material decline from present levels for some years.

Temporary price fluctuations are to be looked for, however, and if the United States should decide to release the silver dollars in its Treasury, the level of the market should be lowered a little, but any material decline will not hold for long.

It is necessary to add a word or two about the part speculation has played in the advance of the white metal. I believe that the influence of speculation has been very much exaggerated. The forces which have caused silver to advance are much more fundamental as explained above. There has undoubtedly been some speculation in recent months, but not so much as previously, and that despite the fact of the expanded interest in silver by the western nations.

Cerro De Pasco's Plans for Enlarged Output

Champion "Low Cost" Producer of Copper and Silver Entering New Era of Development—Powerful Interests Retain Control

By ARTHUR C. WATT

MINING ore about three miles above sea level—on Pike's Peak, for example—sounds like trying to do the impossible on account of the rarified atmosphere which makes physical exertion difficult.

But on the table lands of Pasco, Peru, said to be the highest points of the Andes Mountains inhabited by man, operations have been carried on successfully at the Cerro de Pasco Copper Corporation's mines and each successive year sees an increasing quantity of copper, silver and gold shipped to the outside world.

Back in 1630, silver was discovered in the Cerro de Pasco district and up to 1900, approximately 450,000,000 ounces of the white metal were mined, a large part of which was laboriously extracted by hand. For a long time, the ores were loaded on the backs of llamas—the famous beasts of burden in the Andes Mountains—and thus carried to primitive smelters: then after being smelted, the metal was loaded on the backs of the llamas again and transported nearly two hundred miles to where ocean shipment was made.

Mining operations had been carried on in more or less of a desultory manner until about 1905, owing to the general lack of adequate facilities and the then low prices of silver and copper. At this time, however, American mining interests including the late J. B. Haggin (who was prominently identified with some of the mines which finally went into what is now the Anaconda Copper Company) had their attention called to the properties. Mr. Haggin was so impressed with the favorable possibilities of the mines, that he submitted plans for their development to a powerful group consisting of the late J. P. Morgan, Henry C. Frick, Frederick W. Vanderbilt, Darius D. Mills, H. McKay Twombly, Wm. Douglas Sloane and representatives of the George Hearst estates. A syndicate was accordingly formed by these gentlemen and control of the mines secured.

Millions of dollars were spent in bringing the properties to the point of their becoming producers on a large scale and a narrow gauge railroad of about 200 miles was constructed from the two mining districts to Oraya, where direct rail connection was made with the Central Railway of Peru which made delivery at sea port. The two mines operating companies remained close corporations until 1915, when a holding company, the Cerro de Pasco Copper Corporation, was formed and its securities offered to the public. This company was incorporated under New York laws with a capitalization consisting of ten-year 6% convertible bonds and 1,000,000 shares of no par value stock. Some 333,334 shares of stock were reserved for conversion of the bonds (retired in 1918) and the remaining stock with all the bonds were exchanged for 95% of the stock of the Cerro de Pasco Mining Company (which owned all the stock of the railroad) and all of the stock of the Morococha Mining Company, these corporations having owned and operated the properties. In 1917 the subsidiary companies were dissolved, thereby making Cerro de Pasco Copper Corporation an operating property and possessing stock ownership of the Cerro de Pasco Railway.

Mining Properties

The mining properties lie in two districts, the Cerro de Pasco and the Morococha, of which a brief description follows. The former property comprises about 730 mineralized claims aggregating nearly 6,000 acres which constitute the larger part of the rich Cerro de Pasco mining district located on the eastern slope of the Andes Mountains at an altitude of about 14,300 feet. In addition, the company owns approximately 70,000 acres of water rights, water power sites, surface rights and other valuable property in this district including about 1,865 acres of coal lands containing ample deposits of fuel for future mining and smelting requirements. Inasmuch as the old American Vanadium Company located vanadium in Peruvian coal fields and that country is supposed to have a

natural monopoly of this valuable metal, the thought occurs to the writer whether Cerro de Pasco may not also run into a deposit of vanadium ore one of these days.

Mine Development

Disregarding the old workings in the mines owned by the former Cerro de Pasco Mining Company, the Haggin management developed the properties by opening new shafts and installing electric hoists, powerful pumps and air compressors together with other modern equipment for mining operations. More than twenty miles of underground workings have been opened, the deepest development being only to a depth of around 300 feet. The majority of the ore so far produced is said to be a black sulphide, rich in copper and silver with some gold values, and extend to a depth of around 100 feet being followed by rich silver-copper ore which at a greater depth is followed by ore low in silver but richer in copper values. As the lowest level operated by the company is only about 300 feet and the larger part of the workings do not yet extend very far below a depth of 100 feet, it appears that Cerro de Pasco's copper deposits have hitherto been touched only in a relatively small way—without regard for the silver and copper ores in areas yet undeveloped.

The Morococha District

Cerro de Pasco owns, operates or leases, wholly or in part, about 6,000 acres in the Morococha District (situated more than 15,000 feet above sea level), noted for its production of copper. Geological surveys indicate that the orebodies in this district are deep seated and this opinion is supported by operations at the 700 foot level by another mine in the district—the Natividad—which is owned jointly by Cerro de Pasco and the Sociedad Minera Backus Johnson Del Peru Company, a Peruvian concern whose president, by the way, is a director of Cerro de Pasco. The Morococha property also is adequately equipped with modern machinery and suitable surface buildings for economical mining operations, its output of copper having greatly increased during the last six or eight years.

Controls Smelter Situation

Cerro de Pasco owns and operates a smelter at "La Fundicion" with an annual capacity of slightly more than 70,000,000 pounds of copper, and practically controls the smelting situation in Peru. The plant began operations in 1906 but because of its now somewhat antiquated type, the company has decided to erect a new smelter on a site of some 2,000 feet lower altitude than that of the present location and considerably nearer the Morococha copper fields and Callao, the port of shipment. The new smelter will have an annual capacity of about 100,000,000 pounds and, according to estimates, will cost between $7,500,000 and $10,000,000. It may be several years, however, before the new plant is completed and in operation but its 50% increase in capacity presages enlarged earning power and indicates the opinion of the management headed by Louis T. Haggin who, with the original financial interests still control the property, as to the productive ability of the district.

Cerro de Pasco Railway

Cerro de Pasco owns $2,850,000, being all the outstanding stock of the Cerro de Pasco Railway (operated at a profit) which serves the mines, smelters and coal fields. This railroad is regarded as one of the notable engineering feats of the world owing to its construction under the most trying difficulties and its gaining an almost vertical elevation of nearly three miles to a point where it crosses the Andes Mountains—said to be the highest altitude reached by any railroad.

Ore Reserve

The annual reports of the company fail to give any information on this very important item. In 1916, however, it was officially stated that owing to the nature of the ore deposits and the cost of keeping the ground open, it formerly had been deemed inadvisable to block out large reserves but that within the preceding four years more attention had been paid to this feature with the result that the 1916 estimated reserves of the company's Cerro de Pasco district mines alone then contained about 253,450,000 pounds of copper and 21,745,000 ounces of silver—equivalent to about a ten years' supply: furthermore, that new reserves were constantly being developed in excess of the annual rate of production.

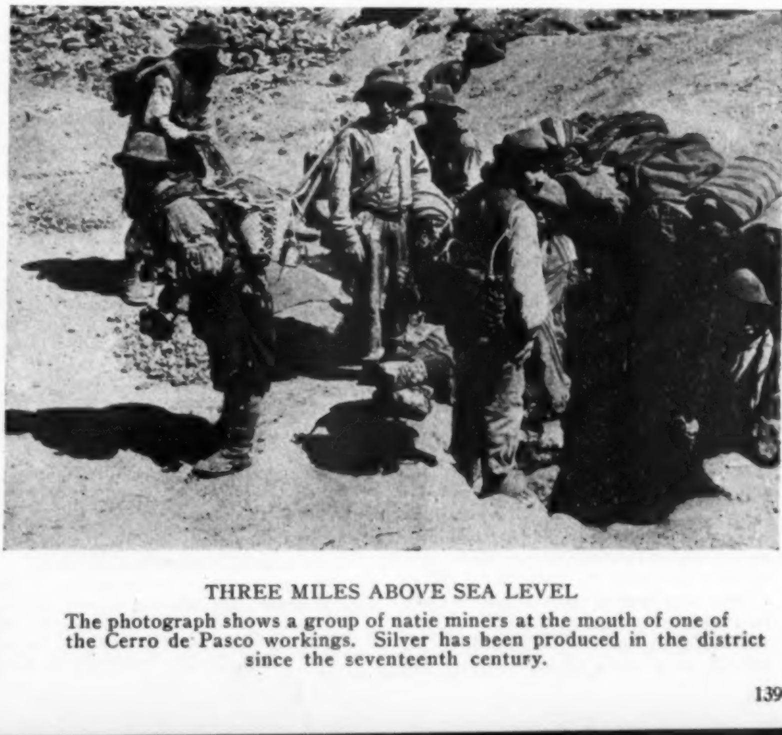
In addition to the foregoing, there was an extremely large deposit containing many millions of ounces of low grade silver averaging from eight to thirty ounces to the ton which it was expected could be treated later in a manner to yield big profits. With silver now selling at its high record level, it is evident that this low grade silver deposit is very value and if successfully recovered, will add millions of dollars to the company's future income. What is also important, the ore reserve figures mentioned do not include this tonnage.

Ore reserves at the company's Morococha property are very large and although no detailed figures have been made public, yet in 1916 the company estimated the probable tonnage and that blocked out to be sufficient also for ten years production. Inasmuch as new ore has been encountered right along, it is evident that the actual and potential reserves are sufficient to give this a life of many years.

Mining vs. Smelting Output

The output of the smelter was 71,000,000 pounds of copper in 1916; 72,674,000 pounds in 1917; 71,906,000 pounds in 1918 and about 53,000,000 pounds for the first ten months of 1919 or at the annual rate of around 60,000,000 pounds. No classification of the silver and gold output of the mines is available.

Of these amounts, the Cerro de Pasco Copper Corporation produces about 80%, the remaining 20% representing custom ores purchased from mines in the district. On this basis, Cerro's actual mine production has been in the neighborhood of 57,000,000 pounds of copper annually. The company is regarded as one of the lowest cost copper producers in the world, but official figures are not available and no intelligent estimate can be made from the company's reports owing to custom smelter returns, etc., being included in gross earnings. At any rate, there is little reasonable doubt that the com-



THREE MILES ABOVE SEA LEVEL

The photograph shows a group of natie miners at the mouth of one of the Cerro de Pasco workings. Silver has been produced in the district since the seventeenth century.

pany can deliver copper in New York at as low a cost as any competitor and lower than most of the other companies, thereby insuring profitable operations on even a fifteen-cent copper market.

Earnings

Consolidated statement shows net income for 1917 as $6,869,900 or approximately $10.30 a share on the 666,666 outstanding on December 31 of that year ,after allowing $3,000,000 for bond sinking fund requirements, $534,730 for interest, and $2,855,947 for United States and Peruvian taxes or the equivalent of nearly $10 a share additional making an indicated total of more than $20 a share without allowing $600,000 for depreciation of plants and equipment. After writing off $4,791,050 or about $7.00 a share as reserve for ore depletion of the mines, the net earnings were thus theoretically thinned down to only about $3.30 a share.

The $10,000,000 bond issue (originally purchased by J. P. Morgan & Company and resold to investors) was retired early in 1918, through redemption and conversion, thus eliminating the heavy sinking fund requirements and interest charges and leaving the common stock with the sole call upon net earnings but increasing the number of shares outstanding to 898,229.

Net income for 1918 was reported at $5,794,691 or $6.45 a share on those outstanding as of December 31 last after allowing for sinking fund and interest requirements up to the time that the bonds were retired. Reserves for depletion of the mines amounted to $5,558,424 or approximately $6.00 a share. What must be remembered, however, is that the earnings reserved for ore depletion for the two years—$10,349,474 or the equivalent of approximately $11.50 a share on the 898,229 now outstanding—are available for dividends to the stockholders.

Official figures for 1919 will not be made public until after the close of the company's fiscal year—December 31—and as Cerro de Pasco in company with all copper producers suffered more or less during 1919 owing to the surplus stocks on hand and the lack of demand on current production, the forthcoming annual report may not make a very attractive showing but operations in 1920 and for a long time afterward will undoubtedly tell a far different story.

Financial Condition and Dividends

The book values of the companies' property and equipment have been written down in accordance with conservative accounting practice and actual physical values are largely in excess of the balance sheet valuations.

Current assets at the close of 1917 amounted to $12,618,270 compared to current liabilities of only $3,239,200 or a little less than a ratio of four to one. In 1918, current assets were $16,818,730 compared to current liabilities of $6,248,623 or a ratio of around two and two-thirds to one which indicates a fairly healthy condition. The company has no funded debt and although accounts payable in 1918 had increased to $2,234,839 from $176,450 in 1917, this excess has been since adjusted by smelter payments in the regular course of business.

An initial dividend of $1 a share was paid in March, 1916, and maintained as a quarterly rate for the year. In 1917, an extra of $1.75 a share was paid or a total of $5.75 and another extra of $1 in 1918 or $5 for the year. The extras were discontinued early this year and the regular rate of $1 quarterly has been paid. Whether this rate is as sured is largely problematical at this writing owing to the recent slump in copper prices and the present unsatisfactory trade conditions together with expenditures for construction of the company's new smelter. Bearing in mind the "depletion reserve" which is available for dividends and the surplus of $7,290,829 or a combined total of about $19.80 a share without allowing for additions during the year now closing, indicate that the current rate of $4 a share can be paid if desired.

The stock at this writing is quoted at around $52 a share and on the basis of maintaining the 1919 dividend rate, the annual investment yield is nearly 8%. This is considered attractive because of the generous charges made for mine depletion which do not make the dividend distributions partake of the character of a partial return of principal. The stock sold at its highest level of $67½ this year compared to a low of $31 and held relatively strong during the recent general market decline. While the immediate future of the copper-silver stocks appears rather unsatisfactory, yet there is little doubt but that they "will have their day" in the not distant future and Cerro de Pasco, with its low labor cost, high silver output and well known excellent management should be prominent "among those present."

Cerro de Pasco's Market Range

	High	Low
1915	55	34
1916	47⅞	32¼
1917	41	25
1918	39	29¼
1919 (to date)	67½	31

New Industrial Conference

THE illustration below shows the new Industrial Conference, which met in Washington to take the place of the one held about two months ago that broke up because of disagreement among its members. This Conference is organized according to a different plan from the old one. Instead of including representatives of labor, capital and the public, it practically represents the Public Group of the old Conference. Its duty is not so much to smooth out the differences between labor and capital as to work out a plan by which the two interests may get together in a future Conference.

THE OPENING SESSION

The second man from the left in the back row is R. Hooker. The others in order, are Martin Glynn, Herbert Hoover, W. C. Thompson, Oscar Straus, J. W. Wickersham, H. W. Robinson, F. Taussig, and O. D. Young. Seated, left to right, Julius Rosenwald, H. C. Stuart, S. W. McCall, T. W. Greyory, S. King, Secretary of Labor Wilson.

Vital Statistics of the Oil Industry

How Consumption is Outstripping Production—Significance of the Growth of Mexican Imports—More Price Advances in Sight?

A STATISTICAL investigation of the oil industry is an enterprise of daring, not that there is any scarcity of data, but that on the contrary wherever one turns one is confronted by an array of facts and figures—most of them contradictory and all but a few unauthoritative. So much has been said and written about oil that to get any clear view of the situation it is necessary to clear away the underbrush of insignificant detail and try to draw conclusions as to the future based on the fundamental facts of the industry.

The consumption and production figures for the United States, to begin with, are doubly interesting, as they show not only a steady, uninterrupted increase in the use of petroleum and its products, but the slightly paradoxical fact that consumption has been in advance of production as far back as 1912. The figures are:

TABLE I.—U. S. Crude Oil Production and Consumption. In Barrels)

Year	Consumption	Production
1912	225,000,000	224,000,000
1913	260,000,000	250,000,000
1914	280,000,000	264,000,000
1915	296,000,000	280,000,000
1916	320,000,000	300,000,000
1917	376,000,000	325,000,000
1918	396,000,000	340,000,000

The significance of these figures is to show that our consumption is steadily getting further ahead of our production, as more and more automobiles, trucks, and other internal combustion engines are being used, while new types like the tractor and the aeroplane create new sources of demand for refined petroleum products and at the same time the use of heavy grades of oil for fuel purposes as a substitute for coal is spreading to power plants, ships, large central domestic heating plants, steel mills, and the like.

TABLE II.—U. S. Imports from Mexico. (In Barrels)

1912	1,000,000
1913	10,000,000
1914	16,000,000
1915	16,000,000
1916	20,000,000
1917	28,000,000
1918	41,000,000
1919	*25,000,000

*First six months.

At the same time the older wells are becoming exhausted, partly because of the rush of small producers around every new field, leading to waste, partly because the pools are gradually being drained, and new pools and fields are not being discovered fast enough to make up for the gradually decreasing production of the older ones and at the same time catch up with the demand.

Mexico, however, has huge resources of the heavier grades of oil, only the fringe of which has been developed, and the gradually increasing importations of oil from Mexico mark the increasing extent to which we are becoming dependent upon outside sources for our oil supply. The startling increase in Mexican oil imports measures the increase in utilization of oil, as shown by Table II.

The distribution of our native oil resources among the various fields into which American oil-bearing territory has been divided shows the tremendous preponderance of the Mid-Continent fields, to which California ranks second as a producer. The improved showing of the Rocky Mountain fields in 1918 over the preceding year will probably be still further emphasized when the 1919 figures come out, as new fields have been discovered in Wyoming and to some extent in Washington and Nevada, while Gulf production too should show an improvement. On the other hand, Pennsylvania production, figured in the Appalachian field, will probably show a decline as these wells are the oldest in the country.

TABLE III.—U. S. Production by Fields.

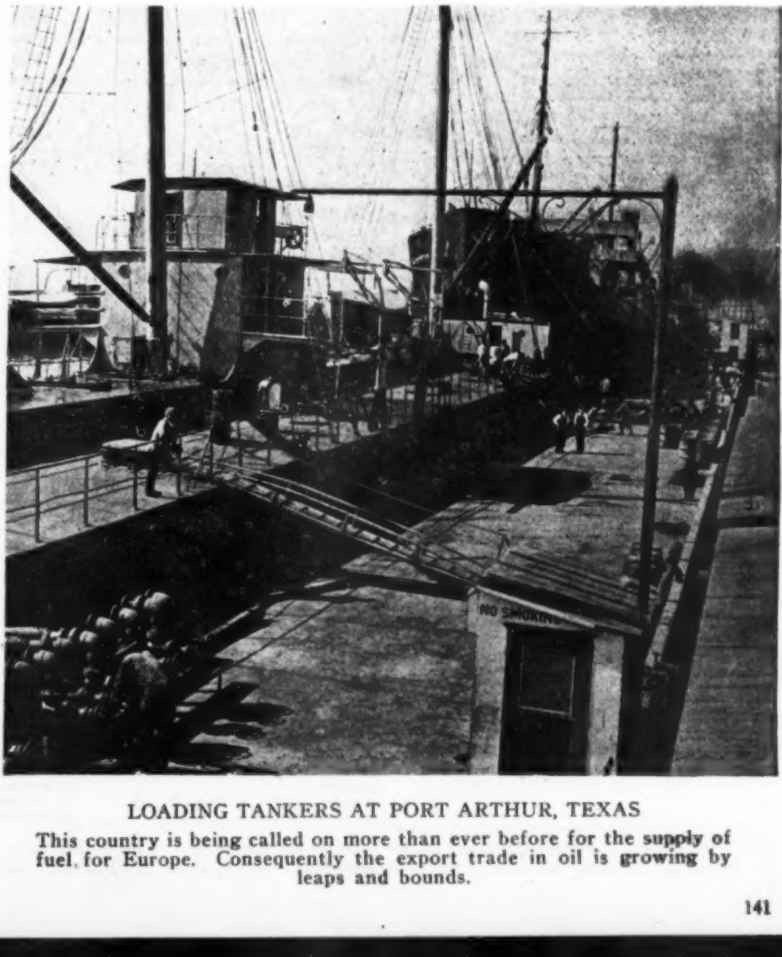
	1917	1918	Available Oil in Ground (Nov., 1919)
Appalachian	24,932,000	25,401,000	550,000,000
Lima-Indiana	3,670,000	3,221,000	40,000,000
Illinois	15,777,000	13,366,000	175,000,000
Mid-Continent	163,506,000	179,383,000	1,325,000,000
Gulf	24,343,000	24,206,000	750,000,000
Rocky Mountain	9,199,000	12,809,000	....
California	93,878,000	97,532,000	2,250,000,000
Other Fields	10,300	7,943	*7,250,000,000

*Including Wyoming and Rocky Mountain.

The following table shows how the petroleum production of 1918 was refined into the various grades of products. It may safely be said that crude oil as such, that has not undergone some form of refining, is unknown to American industry by this time. This year's figures should probably show a greater yield of gasoline in proportion to the petroleum refined, as improved methods have been adopted. The figures are:

TABLE IV.—Production by Products in 1918. (In Barrels)

Gasolene	85,000,000
Kerosene	43,400,000
Gas and fuel oil	174,300,000
Lubricants	20,000,000
Wax	1,900,000
Coke	3,600,000
Asphalt	33,500,000
Other products	30,600,000
Total	362,500,000



LOADING TANKERS AT PORT ARTHUR, TEXAS

This country is being called on more than ever before for the supply of fuel for Europe. Consequently the export trade in oil is growing by leaps and bounds.

At the outbreak of the war, prices for crude petroleum, which had been showing a strengthening tendency the year before, took a sharp break, which continued throughout 1915. Only at the end of the latter year did any sign of an upward tendency begin, and by the middle of 1916 slight margins over pre-war prices had been established. With the entrance of this country into the war, the prices advanced still further, until in February, 1918, oil prices were practically pegged by Fuel Administration arrangements. The prices fixed for war-time remained after the armistice until September of this year, when the Eastern oils advanced in price by 25 cents a barrel, while other oils remained stationary. Last month another price advance of the same amount was declared for Eastern oils, and shortly thereafter a price increase for Mid-Continent and other oils. With the growing demand and steadily increased inability of the current production to keep pace with it, the market position of the oil industry is so strong as fully to explain these advances. Even fuel and gas oil, which constitutes almost half of the total production of oil, and has hitherto accumulated in great stocks because of the slack demand for it, has now come into great popularity as a substitute for coal, and instead of being the weakest point of the oil industry has now become one of the strongest. Prices given in Table V are for average barrels of 42 gallons at the well.

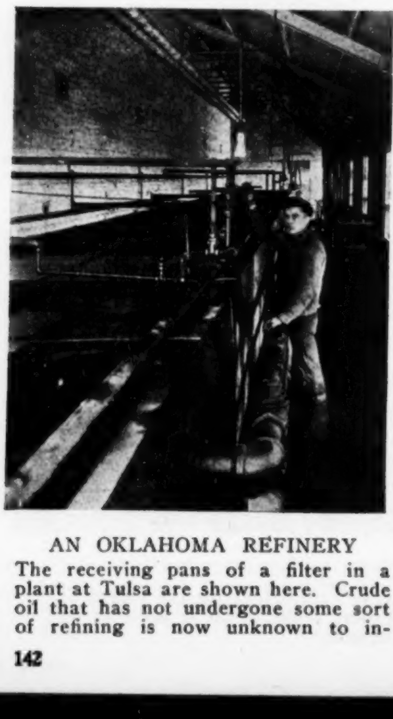
TABLE V.—Prices of Crude Oil, Jan. 1. (Per Barrel)

	Pennsylvania	Kansas-Oklahoma
1913	$2.05	$0.83
1914	2.50	1.03
1915	1.50	.55
1916	2.25	1.20
1917	3.05	1.70
1918	3.75	2.00
1919	4.00	2.25
1919, Sept.	4.25	2.25
1919, Nov.	4.50	2.50

The great increase in public interest in the oil industry after the war is reflected in the attached figures showing capitalization of new oil companies of $100,000 or over. The decrease in new corporations for 1918 was due to the necessity of conserving capital for the Liberty Loans, which led to the creation of a Capital Issues Committee of the War Industries Board to prevent the creation of new companies except such as were indispensable for the prosecution of the war. The significant thing is that new incorporations have been showing an upward trend interrupted only in August, and are now at the record high for the country. The October incorporations alone are about equal to the average for the two years 1917 and 1918, while the year's total, seeing that over $2,500,000,000 has been invested in new oil corporations to date, may turn out to be more than double the total amount invested in oil in the whole previous history of the United States.

OIL WELLS IN CUSHING FIELD

There is a forest of derricks in this district in Oklahoma along the Cimarron River. The Mid-Continent territory leads all other fields in the United States in production.



AN OKLAHOMA REFINERY

The receiving pans of a filter in a plant at Tulsa are shown here. Crude oil that has not undergone some sort of refining is now unknown to in-

TABLE VI.—Capitalization of Oil Companies of $100,000 or Over.

Total, end of 1916	$419,716,000
New Companies, 1917	340,219,000
New Companies, 1918	430,480,600
New Companies, 1919:	
January	60,825,000
February	51,362,000
March	54,005,000
April	104,469,000
May	202,305,000
June	355,390,000
July	586,216,500
August	173,345,000
September	515,510,000
October	613,610,000

The position of the United States among the oil-consuming countries of the world is shown by Table VII, which shows that this country uses over four-sevenths of the world's consumption.

TABLE VII.—World Consumption by Barrels (Estimated)

United States	280,000,000
British Empire	70,000,000
Russia	63,000,000
France, Italy, Roumania, etc.	23,100,000
Rest of World	56,000,000

With the completion of plans for the industrial rehabilitation of Europe, this country is being called on more than before for the supply of fuel. We have practically supplanted England as a coal-exporting country, but we have been having troubles of our own in getting coal, and the export trade in oil has consequently been growing by leaps and bounds. A summary of the estimated needs of the prominent European nations, outside of England, which is more than self-supporting as far as oil is concerned, for the next twelve months' needs, is given in Table VIII.

TABLE VIII.—Estimated Needs of European Nations, 1919-1920, in barrels.

Lubricating oil	3,500,000
Germany:	
Fuel and other oils	4,200,000
France (fuel oil only, other needs not estimated)	8,400,000
Italy (fuel oil, kerosene, gasolene, etc.	28,000,000

The inevitable conclusion drawn from the above figures is that the oil industry is now well under way in one of the great booms, such as have occurred in the development of other great natural resources, such as coal, iron or copper.

From Our Mail

"I am very much in sympathy with you in your strike troubles.

"I received your circular letter saying that you would have a copy of your invaluable magazine out dated October 18th, but I have not received mine. As I bought your first issue and subscribed for the next number and have been a constant subscriber ever since, it isn't necessary for me to tell you how much I miss it. Kindly mail it at once and also any issues which have come out since October 18."

F. W. L., Denver, Colo.

Blazing the Trail of the Independents

Union Oil of Delaware in the Vanguard—Its connection with Union of California and Commonwealth Petroleum—Long-Range Vision or Super-Optimism?—The Side-Kick of "Standard Oil"

By B. L. GOODRICH

THE intended capitalization of the new Union Oil Company of Delaware, the latest favorite on the N. Y. Stock Exchange's growing group of new oil companies—around 36—is 5,000,000 shares of no par value. At the introduction figure around 40 this would value the newcomer at $200,000,000, and so far as number of shares is concerned plase it within hailing distance of some of our greatest corporations like the Steel Corporation or General Motors.

If this were the scheme of a group of light-weight speculators or even medium-weight operators one would have to view a 5,000,0000-share promotion with considerable caution. But those behind the Union of Delaware-Commonwealth-Union of California triangle are distinctly of the Big Bertha caliber among the big guns of oildom, finance and business, and do not do things in such a sensational way for the purpose of making a "splash." One and all of those behind the affiliated concerns have made good—very good indeed. They are long-headed, shrewd individuals who look ahead to the next decade or generation if necessary. I doubt if they have any other axe to grind beyond placing America first in the world's most important industry—oil.

"Standard Oil" as God-Mother?

I don't know whether Union of Delaware is a "Standard Oil" affair, and I doubt if anyone can directly connect it with that institution. I am using Tom Lawson's view of "Standard Oil," not as any particular company or corporation, but as a power intangible, an institution of which oil is the outward symbol only. There is no large industry, including banking, shipping and railroading in which the institution is not vitally interested.

Percy A. Rockefeller is at the head of Union of Delaware. He is the second son of William Rockefeller, the latter a younger brother and erstwhile partner of John D. Rockefeller, Sr. "Percy" is a nephew of "John D., Sr." and by training and choice seems to be following in uncle's footsteps. He was trained in the Rockefeller-Stillman school, and has an extensive knowledge of banking gained through actual experience with the National City (a Rockefeller sponsored institution). He seems to be the business Rockefeller of the future. And he is at the head of Union of Delaware. Mr. W. E. S. Griswold, another director, is a son-in-law of Wm. Rockefeller, and his office address is 26 Broadway, New York.

How the company came to be formed must largely be a matter of conjecture. The imagination of any thinking individual conversant with the trend of oil developments in the past few years must have thought along lines looking to American dominance in the oil industry in every direction. Our British friends "across the pond" have been busy with Royal Dutch, Shell Transport, Mexican Eagle, General Asphalt and other companies which are closely related in their community of interests and friendship. We mentioned in a previous article how Mr. Deterding, general manager of "Royal Dutch" (which is also an institution in the abstract sense), the Dutch champion oilman of the invading forces, came over here, bought up some miniature empires of oil lands in the Mid-Continent field, and was sufficiently audacious to actually encroach upon Standard Oil's preserves. Deterding went further and sold a cargo of oil under the nose of Standard Oil's home and is credited with the statement "I am going to stay in the United States and fight Standard Oil in its own territory."

This is a free country, and doubtless Mr. Deterding's passports are in order. He will probably stay.

But—is not the Union Oil Company of Delaware the answer?

Other Aspects of Union of Delaware

It must be remembered that most of the old-line Standard Oil subsidiaries specialize in the business of taking care of the oil business of the United States of America by states and territories. Originally, units of Standard Oil of New Jersey, after their segregation by court order in 1911, each of the thirty-three members of the family launched out individually and competitively and became bigger and greater than ever. By maintaining friendly rivalry and sticking to their own territory and conservative policies, Standard Oil kept and enlarged the prestige that is universally known and recognized. But the fact remains that each company has been a local one, and their "big money" has come from pipeline trade, marketing and refining, but not from producing. Standard Oil has no very large producers compared with the combined value of the thirty-four enterprises and their subsidiaries.

Union Oil of Delaware is apparently going to fill up this gap, for we find on reference to the chart that production rather than refining, marketing or transporting looms large in the new enterprise. With the sole exception of its subsidary, Union Oil of California which now has five large refineries and is building a sixth, the subsidiaries of the two Union Companies and of Commonwealth Petroleum are largely producers; and that on a "grand" scale, refineries, sometimes called "the balance wheel of the oil business," may play a larger part later.

Union Oil of Delaware is the newest and latest company that comes before the public to combine the interests and resources of a complex collection of subsidiaries. The chart herewith that I have tried to make as simple as possible, explains as best I know how the why and wherefore of it all.

Union Oil of California

The Union of California is, of course, a very old established company which with Standard Oil of California, General Petroleum, Royal Dutch and the Southern Pacific Company practically

UNION OIL IS A PRODUCER

Apparently the new concern is going to fill a gap in the Standard Oil group. It will have extensive properties in Mexico, where this gusher was photographed.

controls the oil output of California. I am informed that Union with its subsidiaries very nearly controls (if it does not already do so) about 40% of that State's output. This company goes back to 1890 and has been a great success. It does a gross business of $50,000,000 annually, produced 8,000,000 barrels and more last year and should shortly enter the 10,000,000-barrel-a-year class. Its holdings of nearly 300,000 acres of oil lands in Mexico, Texas, Wyoming and California (the latter predominating) are potentially of immense value. It has been estimated that this company alone has a net worth of around $200,000,000 and this estimate seems conservative. The

Union Oil of California

Production by Acreage

Rate of Production Per Acre Annual Bbls.	Company
2784	Shell Company
2760	Standard Oil
1703	Doheny (various)
1664	General Petroleum
1292	Santa Fe Ry.
1239	Associated Oil
1146	Average
988	**Union Oil**
928	All Others
481	Honolulu Consolidated
465	Southern Pacific

first table will show that Union of California has not "gouged" its lands for oil, nor tried to break any records. Experts say that its lands are "hardly scratched." This probably accounts for the success that has come to stockholders of this company, whose shares selling around 46 in 1914 sold above 220 recently after a distribution of "rights" to purchase more stock at 100! The company has also earned nearly $14 a share on its stock for the past seven years, paid good dividends and a stock dividend of 200% in 1908.

The trouble with Union of California has been lack of working capital which has prevented it from entering foreign markets very aggressively. The affiliation with Union of Delaware, Commonwealth Petroleum and the new cash that is coming in will enable it, I should judge, to put itself well "over the top."

Commonwealth Petroleum and Union of Delaware now control this seasoned old company and its earnings and dividends will do much to stabilize the earnings of the parent holding corporaton, whose shares will have most interest for the investor.

It is worth while mentioning that Union of California has nearly thirty subsidiary companies under its ownership or control representing a combined capitalization of about $35,000,000. Some of these are grossly under-capitalized and their net worth is far in excess of this figure. As they do not publish separate balance sheets, the outsider is at a disadvantage in appraising actual values.

Commonwealth Petroleum

This corporation has been the hub around which the whole scheme, until a few days ago, revolved. The existence of this corporation will come to an end as its shares are to be exchanged for that of the principal holding company—Union Oil of Delaware. A circular from the latter company announced recently that stockholders of the Commonwealth Corporation are invited to exchange their shares for Union of Delaware on a basis of six shares of the new company for every five of the old. Commonwealth sells around 42 on the "Curb" and Union around 36 on the "Big Board," so that the holder of Commonwealth has something to gain financially by making the exchange (the exact proportion is $210 to $216 at this writing).

The Commonwealth Petroleum Corporation was the first inkling that Wall Street had of Standard Oil's side-kick in the producing end of the oil business. As a matter of fact, about two years ago the writer was informed that No. 26 Broadway was "interested" in the old United Western Union Oil Company whose shares had a disappointing career from dollars down to cents, and through a recapitalization that gave more disappointment in place of the "melons" that were confidently expected. For once, rumors were not unfounded as Commonwealth Petroleum was first traded in on the Curb on a "when issued" basis from 40 to 50 by some nimble traders who found out that the stock of the new corporation would be exchanged for United Western (then around 2) on a basis of 5 Commonwealth for 100 United Western. There were 10 points profit in that knowledge. It is estimated that United Western alone can earn about $3½ a share on Commonwealth stock.

Commonwealth Petroleum Corporation has taken unto itself a very promising group of other oil producers enumerated in the chart. Corporate details, in so far as they aim to give a broad view of this new young Standard Oil producing unit, are given.

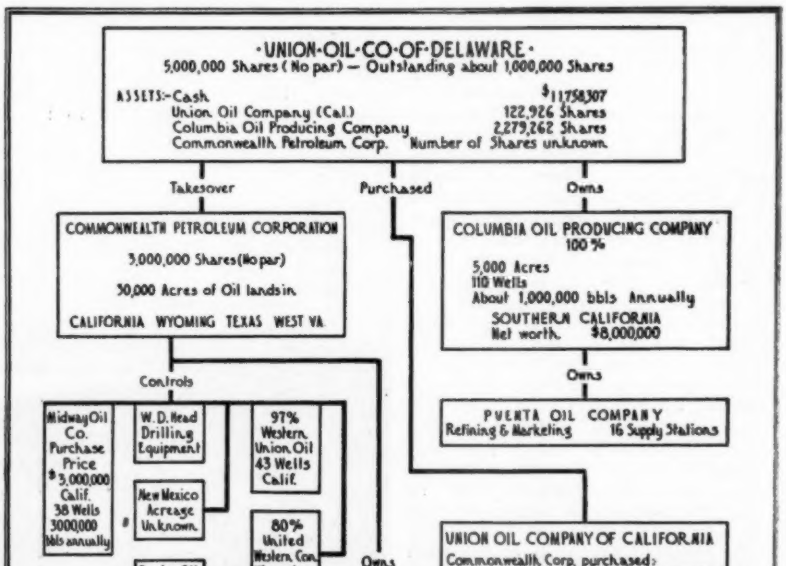
It is quite evident that the foundation, incorporation, and near dissolution of the Commonwealth Corporation are all details in the broad financial plans that have had their birth and growth in the minds of the founders of the new Union Oil Company of Delaware. A rose by any other name would smell as sweet, and if the name of the new company is confused with Union of California, its sponsors probably had their eye on the big California Company from the inception of

Union Oil of California

Production Statistics

	Company's Production Bbls.	Oil Handled Bbls.
1918	8,271,084	19,660,000*
1917	7,430,164	19,000,000
1916	6,681,015	19,000,000
1915	4,741,684	17,320,000
1914	5,534,239	22,193,000
1913	4,838,333	17,400,000

*In 1918 the Company handled a total of 22,000,000 barrels, including Mexican Oil.



their plans. That is, at any rate, the way I reason out the matter. To-day the big new company is no more Union of California than it is Commonwealth Petroleum; the peculiar and complex way the company has come into existence will be of interest to statisticians rather than investors.

Many guesses and some estimates have been made as to earning power, dividends, net worth, etc., of the new company. For what it is worth, it might be noted that semi-official estimates place about $7 a share as current earnings, and between $10 and $12 as near probabilities on Union of Delaware. Personally I am not prepared to accept any figures, nor to make estimates of the value of the shares, nor guesses as to what it will earn or pay in dividends. "Insiders" sometimes over-estimate and under-estimate. "Insiders" of Standard Oil have often under-estimated the value and earning power of some of their subsidiaries. The Rockefeller Foundation, a large holder of National Transit, for example, did not make as good a guess as the writer regarding the value of "Transit." People "close to the inside" did not enthuse on International Petroleum when the present writer saw its immense possibilities when it was selling at 15—now 55. What's the use of "estimating" when certain factors and quantities are unknown?

This much we do know. People like Percy A. Rockefeller, Chas. H. Sabin, Gates W. McGarrah, C. H. Schlacks, S. M. Vauclain, W. E. S. Griswold, Charles Hayden and the rest are good enough generals in oil, banking and big business campaigns for most of us to follow. They and their associates are pledged to success for the Union Oil Company of Delaware. We know not, neither do they, how high or how low U. O. will be quoted on the elusive band of white tape that registers our hopes and fears. We may well consider the promise regarding the new enterprise made many years ago by other Standard Oil enterprises, "Who travels with me prospers."

How to Judge the Safety of Securities

Chapter VIII of the Series "How to Invest" Continued—A Few Don'ts—Government, State and Municipal Securities—Corporation Issues

By GEORGE E. BARRETT

THE conditions surrounding the government, state or city whose bonds are under consideration, are always to be reckoned with. The obligations of a boom town whose sudden prosperity may collapse on short notice cannot be ranked with those of a long established city of the same size. A state of war with all the uncertainties that it entails naturally has an adverse effect upon the credit of a government.

Aside from such general factors as the foregoing, which will suggest themselves to any investor, there should, of course, be an examination of the financial condition of the body which is issuing the security. This involves a comparison of national wealth and income with the total debt, or similar figures, indicating the position of the state or divisions thereof in question. In the case of municipal bonds, the important figures to obtain are the net debt as compared with the assessed valuation of property within the municipal limits, since taxing power is behind the payment of interest and principal. It is a general rule that the debt should not exceed 5 per cent. of this assessed valuation. However, it is important to represent 5 per cent., 60 per cent. or 100 per cent. of the actual value. Sometimes assessed values exceed actual values.

One should be sure before investing in a municipal bond that the object for which it is issued is a useful one and that it will remain in use throughout the life of the bonds. If self-sustaining, as in the case of water bonds, as a rule, where income derived from the public work will take care of payments, the issue is in a strong position.

These general considerations, which are practically self-evident, make the selection of municipal bonds easier from the investor's standpoint than in the case of corporation securities. Purchase through a reputable banking house is sufficient assurance that the legality of the issue has been passed upon, and if the investor will confine himself to the bonds of this government, those of the states with a good financial record, and of the large municipalities, there is little danger of loss.

Such bonds do not, as a rule, enjoy a very active market and for this reason may not be suitable to the requirements of some investors. The principal objection which many have to this type of investment is in the low income yield. The bonds are purchased largely by savings banks and other institutions and by the trustees of estates on this account. The majority of private investors prefer to obtain the highest return possible by the purchase of corporate securities, judging the safety of which is a more difficult matter requiring considerable study.

In outlining the more important points in judging the safety of corporate investments, it may be well to group these considerations as they relate first, to the particular security, then to the corporation, thirdly, to the corporation's business and, lastly, to business conditions in general.

Terms of Issuance

With respect to the particular security the terms of its issuance should be investigated to make sure that there are no unfavorable features connected with it. Among such might be mentioned the lack of a cumulative provision in the case of the preferred stock of a corporation which had not demonstrated sufficient earning power to make such dividends secure. Another matter might be inadequate restrictions upon the issuance of further bonds, thus making it possible that the safety of the issue be lessened through increasing the amount outstanding out of proportion to capital invested Such details as these have been covered in the preceding chapter on "Reading a Circular."

The principal items to be considered are the exact security in the case of a mortgage or lien obligation or the asset position in the case of an unsecured issue, and the relation of earning power to interest or dividend charges on the issue. It is important to take nothing for granted in the case of the security, but to determine exactly what the mortgage covers, as in a bond, what are the underlying liens and what is the equity represented by the market value of junior securities. Occasionally the title may be misleading, as in the case of some so-called prior lien bonds which are actually junior to several mortgages. Occasionally also a bond may be a first mortgage of a holding company whose property consists of the stock of another corporation having several bond issues outstanding so that in effect the first mortgage bonds of the holding company are a third or fourth mortgage on the property.

In the case of notes and debentures which are unsecured, or stocks, it is desirable to ascertain the asset position of the security. That is, by the subtraction from net assets of the amount of securities having prior claims the actual assets protecting the security in question may be determined. This is particularly important in the case of stocks which are frequently "water" in large measure, not representing actual investment in the property and consequently not covered by assets contributing earning power.

It is well in the case of such securities also to determine the position occupied in the total capitalization of the company. The market value of all the securities represents the general opinion of the value of the business, and a $5,000,000 preferred stock issue, for example, followed by $10,000,000 in the market value of the common stock, is evidently in a much stronger position than if the equity were only represented by common stock having a mar-

ket value of $1,000,000. Generally speaking, it may be said that securities representing not over 70% of the total market value of all outstanding securities of a corporation may be classed as investments. This is not a rule, however, and subject to many exceptions and variations.

The physical value of the property of the corporation is not a sufficient basis upon which to judge an investment. Following the panic of 1893, when bonds of a par value of hundreds of millions of dollars were in default, and the properties were sold to satisfy the bonds, the amount realized was in most cases but a fraction of what it had been supposed to be worth. The vital consideration is the stability of the income of the corporation.

Earnings.

With regard to earnings, no margin over interest or dividend requirements can be given as representing an arbitrary point of safety. A matter to be determined at the outset is whether the interest or dividend charges show the total annual requirements on the amount outstanding or only the amount actually paid during the previous year. These figures may be exactly the same, but frequently the issue has been largely increased, so that increased earnings in the future will be required to maintain the same margin of safety above charges as appears in the earnings statement.

Another consideration is the average number of times interest charges have been earned or the average amount earned on a stock over a period of some years. Obviously if a corporation has earned on an average of 8% on its preferred stock during the preceding five years and shows 25% earned on that stock in the statement under consideration, allowances must be made for the unusual conditions causing such an increase.

This matter is especially important during these times of unprecedented circumstances when many corporations have reported enormous earnings which cannot possibly be maintained under normal conditions. It seems unnecessary to advise that unusual earnings of this source be not taken as a criterion of the safety of income on the securities in question, but that normal earnings power be ascertained by averaging several years.

The Corporation.

If satisfied that the position of the particular security which is being investigated is satisfactory in the foregoing respects, the issuing corporation must then be examined from many angles. A study of the balance sheet should show whether it is in a satisfactory financial condition. Each item may, of course, have an important significance, but there are certain figures and relationships as shown by the balance sheet which merit special attention.

Possibly most important is the proportion of current assets to current liabilities. While no arbitrary rule can be given, some idea of this relationship may be gained by saying that ordinarily current assets should be at least twice current liabilities. Furthermore, the character of the current assets should be such that they are really liquid or convertible into cash within a reasonably short time. Actual cash in banks should represent a considerable proportion of current assets and the larger this item is the stronger the financial position of the company.

In many cases the largest item of current assets is inventory. This is not always satisfactory as raw materials or semi-finished products may not be ready salable, and in the event of financial difficulty the company would have trouble in realizing upon them. It is clearly dangerous that a concern have too much of its working capital tied up in this manner, and it is well to compare this figure in particular with the same figure for previous years, so that it can be determined whether the inventory is increasing disproportionately.

It is difficult to place an accurate valuation on intangible assets such as good will, although this item frequently may be of the greatest importance and possibly the most valuable of the company's assets. Nevertheless, it should not be over-capitalized and in most conservative corporations does not appear as a very large item.

On the liability side of the balance sheet notes and bills payable are the principle figures to be considered. These represent in large measure the company's floating debt, that is, its borrowing from banks. If they increase disproportionately, it usually means that some new financing must be done and securities sold to capitalize this floating debt, as the amount of credit which the banks will extend is limited and it is not their business to supply permanent capital.

It is, of course, true that the character of the different items in the balance sheet vary greatly with different corporations. It is clear, for instance, that accounts receivable may include bad debts, which are practically no asset at all. These should be written off before the amount is included in the balance sheet, or a reserve against bad debts may be set up on the liability side. As another example, investments are often included as a current asset. These may be in Liberty Bonds, which are practically as good as cash. They might, however, be in the unmarketable securities of a subsidiary company. Many concerns received part payment for sales to Russia in Government bonds, which greatly depreciated in value.

It is not necessary or feasible that the investor make an extensive investigation of the items composing the balance sheet of a corporation, whose security he is considering. If he is dealing with a responsible banking house every detail of this sort has already been examined by expert accountants. It is, however, desirable that he be familiar in the general way with the subject so that if any one item is disproportionately large, he may satisfy himself that it does not unfavorably affect the company's financial position.

As a matter of fact, these questions are of much greater importance to the purchaser of a company's stocks than to the investor in its secured obligations. Bonds secured on conservatively mortgaged property, which has a record of consistent earning power, are not likely to be affected by fluctuating current assets and liabilities. Bonds are secured on fixed assets only, as current assets cannot be mortgaged. On the other hand, in case of trouble, the stockholder can have no share in distribution of assets until all debts have been satisfied, including those represented in current liabilities. It is, therefore, important for the stockholder to be sure that the company is not in a vulnerable position through too large a floating debt.

Again the importance of these items is dependent somewhat upon the type of corporation and the foregoing considerations have a greater bearing upon industrial concerns than railroads or public utilities. Since a smaller proportion of total assets of an industrial is in fixed form, the fluctuations of the business are so great and such large amounts are required for working capital, the value of real estate or factory building, machinery, equipment, etc., represents but a small part of the total invested capital. On the other hand, 90% or more of the investment in a railroad or public utility is often represented by tangible fixed assets. The bonded debt, therefore, may rightly be much greater in proportion than on the average industrial.

The Main Consideration.

Earning power is, after all, the main consideration. While a company may show a very satisfactory record of earnings, and yet go into bankruptcy through lack of available cash to meet its creditors, there is little danger that investment securities will suffer in such a case. The business will certainly be continued if it has demonstrated real earnings power, and while the stockholders may lose money, owners of the secured obligations would ordinarily have little to worry about. It is only when earning power is found insufficient for fixed charges that the capitalization must be reduced, as in so many railroad receiverships, and the bonded debt cut down. In such cases the bondholders may receive income bonds or stock payment of interest or dividends which is not a charge upon earnings. It is earnings, therefore, which the investor must carefully examine, and concerning which he should keep himself informed after he has made the investment.

Net earnings are much more important from the investor's standpoint than gross earnings, and particularly during a period of rising prices great increases in gross may be accompanied by sharp declines in net. This was the case with practically all railroads dur-

ing the latter half of 1917. Probably most vital is the number of times the corporation is earning all fixed charges. In circulars fixed charges are seldom set up as a whole, it being desired to show the relative position occupied by the different securities. From the following example, it may be evident that it is possible for the uninformed investor to take an incorrect view:

Gross earnings	$300,000
Net earnings	$100,000
Interest on 1st Mtg. Bonds	35,000
	$65,000
Interest on Gen. Mtg. Bonds	15,000
	$50,000
Interest on Notes	8,000
	$42,000

It will be noted that first mortgage bond interest is earned nearly three times, general mortgage bond interest is earned over four times, while note interest is earned over six times. That is, after deduction of all prior charges the balance available is that many times the requirements. The real significance to the investor, however, who may be considering the purchase of the notes *is not that interest is earned over six times, but that all interest charges are earned about one and two-thirds times.* This would be a satisfactory margin in the case of a railroad or public utility, where earning power is more or less constant. In the case of an industrial, however, subject to great fluctuations in business, such a margin over fixed charges is inadequate.

In the case of stocks, the per cent earned upon the par value or the number of dollars earned per share is the figure to be noticed, but even in the consideration of investment stocks it is essential to learn how many times the company is earning its fixed charges. A company most of whose capitalization consists of funded debt, followed by a very small issue of capital stock, might show a large percentage earned on the latter issue, while actually the margin over fixed charges is very unsatisfactory. The importance of earnings lies in their relation to capitalization. A company's earnings may be showing large increases and yet its earning power decreasing. In other words, its capitalization might be increasing faster than earnings. It is frequently the case that, by taking over other companies, a concern may show very largely increased earnings, but it remains to be determined whether the new companies will prove profitable investments from the standpoint of increased capitalization.

Not only should the latest earnings statement of the company be studied, but a comparison should in every case be made with previous years to assure one's self that the present tendency is favorable and that the company has a record of established earning power, without which its securities cannot be in the highest investment class.

Another important matter is the operating ratio or proportion of gross earnings consumed by operating expenses and taxes. This ratio is of special importance in the case of railroads and public utilities, but is also useful in comparing similar industrial concerns. It is chiefly of value, however, in comparing the result of the operations of different years in the case of the same company, as so many special circumstances surround the business of each corporation, that it by no means follows that a higher operating ratio in one concern than another indicates less efficiency of management. The operating ratio of most steam railroads runs from 60 to 75 per cent, and about the same ratio obtains in the case of traction companies. That of steam generated electric power companies is somewhat less, while hydro-electric companies have a ratio as low as 30%. Industrial companies, of course, vary the most, some concerns saving a much larger percentage of gross than others. There are a great many industrials which show about 10% of gross business available for the common stock.

It is comparatively easy to determine whether current earnings satisfactorily protect interest or dividend charges on the investment under consideration. It is upon the permanence of this earning power, however, that the safety of the security depends. It is obviously possible to conceive of circumstances making worthless any investment, but, while it is a rather difficult matter to judge the factors which make for stability of future earning power, this is probably the most important consideration in the selection of safe investments, and the investor should be able to make the selection in such a way as to remove as far as possible the possibility of loss.

The next article will take up the character of the business as affecting the value of securities.

Investment the Ultimate Object

SPECULATE if you will, but the path of speculation branches into two directions—the one pointing toward failure and the other toward investment, for the final result of successful speculation is generally the investment yielding an income.

Very few operators in stocks continue to pile up profits year after year without investing the bulk of them. Even Mr. Livermore, who is a genius in this line of work, has a safe percentage of his profits tucked away. And although he looks upon money as a means to greater ends, he knows as well as any one else the great risks involved in the business and is insuring himself against a rainy day.

The man who starts out with a capital of $10,000 should not, if he makes money, continue to operate in larger and larger quantities of stocks, but should set a mark for himself, say $15,000 to $25,000, and whenever his profits amount to more than this he should invest that surplus. Failure to decide upon some such plan puts him in the class of the out-and-out speculator who is willing to expose a continuous broadside to the enemy with the chances favoring his meeting disaster.

It makes a very great difference whether you are venturing your entire capital and profits or only that part of it which you have not invested.

An incentive to investment is to purchase securities ahead of your requirements. With an original capital of $10,000 you might well decide that whenever your equities run up to $15,000 you will immediately invest the $5,000, and while this is developing you will watch out for a sound and growing medium, buy it on part payment, and take it up as soon as the state of your account will permit.

This plan is followed by a large number of conservative traders who do not wish to keep their risk up to the maximum but who desire to lay away money that will form a back log.

One of the best things that can happen to a man is the necessity for getting along on a limited amount of working capital. If he feels that he has plenty of loose reserve behind his first $10,000, he is apt to take greater chances than if that money represents the amount to which he has limited himself. He will be more careful with that kind of capital.

The investment securities which you thus accumulate are the measure of your success. It means nothing to run $10,000 up to $50,000, but it means a great deal to have your $10,000 original capital intact and $40,000 invested and working for you.

To doubly insure the safety of your profits, start a trust fund in which a certain trust company becomes the trustee under a letter of instructions from you, the trustee never being authorized to surrender any of these securities or the proceeds in case they are sold, but always to accept additions thereto. In this way the trust company acts as a sort of savings bank for your securities and you bind yourself to "put in" but not to "take out."

These suggestions are made because experience has proved that speculators need insurance against themselves. The above method has proved highly satisfactory because it puts the profits where they can't get away from you, and that is more than can be said about the method of men who operate in continually widening circles until they finally are drawn into a whirlpool which is their finish.

Founders' Shares Make Bow to American Investors

Important for Stockholders To Know Effect of This Imported Method of Financing

By A. W. CLAYTON

STYLES in financing change like styles in clothing—not quite so often but at such intervals as to break whatever monotony exists in the corporate organization field.

One of the fashions imported into this country from Great Britain, and now becoming popular, with certain modifications depending upon the individual characteristics of the business, is the issuance of so-called founders' or managers' shares.

In reality these are super-preferred shares and usually held conditionally by those who promote the business, manage it or are employed in it, because of the very attractive profit-sharing features which serve to draw men of ability who ordinarily could not be tempted to join the organization unless by the offer of very fancy salaries.

These shares therefore serve the purpose not only of compensating the organizers of a new corporation for their time, risk and trouble but serve as an inducement in bringing able men into the management and enable them to share in the profits created as a result of their business building efforts.

Several concerns of considerable size have worked this feature in some form into their capitalization framework and the theoretical result in some instances is of more than ordinary interest, especially insofar as the common stockholders are concerned.

One Form Used.

One form of employee shares for example, is illustrated by the United Retail Stores Corporation. When this company was organized a short time ago it was announced that 160,000 founders' shares with a par value of $5 had been authorized. This stock was to be sold to employees at par and to become a substitute for the bonus system operated by the old company, the United Cigar Stores Corporation. The new stock shares dividends equally with those paid on the common stock, which at present amount to $7 a year or a yield of 140% annually on the founders' shares. Certain restrictions, however, are placed upon these shares, the most important being that the holders cannot sell this stock to anyone except the company.

In the event that such a stockholder dies, the company will purchase the shares at the same market price then prevailing on the common, and the proceeds will be paid to the beneficiary named. Thus an employee pays $5 a share for the founders' stock with an indicated annual yield of 140% on his investment and it immediately has a market value on a price level with the current quotations for the common, that may be selling at $100 or more. Consequently if the holder died within twenty-four hours after buying the stock, his beneficiary would receive in cash a price per share equivalent to that current on the common stock.

The recently organized $25,000,000 United States Distributing Corporation issued 10,000 shares of managers' stock of $5 par value which were sold at par to those "responsible for the managerial control and the success of the Corporation," and $5,000,000 of common stock available to the public. The "Managers'" shares are entitled to 10% of any and all profits which may at any time be distributed as a dividend or otherwise. In the event of dissolution or liquidation, the corporate assets are to be first applied toward the holders of the common stock up to the par value ($50) of their holdings; then the holders of the managers' shares receive par value ($5) for their stock, after which any balance is to be distributed 90% on the common stock and 10% for the managers' shares.

To show how this plan works out for the holders of the managers' shares, we will suppose that $1,000,000 in profits are to be distributed to the stockholders. Ten per cent or $100,000 will be set aside for the managers' shares, which thereby receive a dividend of 200%. The remaining $900,000, or 18%, will be paid to the common stockholders, representing $5,000,000 of stock, or about one-eleventh of what the managers' shares receive. What is more important from the common stockholders' point of view is the bearing of the managers' shares upon the equities behind the common stock. It will be noted that in case of liquidation or dissolution, the net proceeds are distributed first, by paying holders of both common and founders' shares the par value of their stocks; then any surplus is divided on the basis of 10% for the managers' shares and 90% for the common stock.

In this example, there are $5,000,000 of common stock and only $50,000 of founders' shares. If balance of assets to be divided amounted to $1,000,000, then 10%, or $100,000, would go to the owners of the managers' shares. This would be equivalent to ten dollars a share or two dollars for every dollar invested in the business, compared with eighteen cents on every dollar invested by the common stockholders. The claim of the managers' shares on surplus equities is therefore a very important consideration for the common stockholder.

American International Plan.

One of the earlier companies to adopt the feature of managers' shares was the American International Corporation. This company was organized in November, 1915, with a capitalization of $50,000,000, of which $49,000,000 was common stock and $1,000,000 preferred or managers' shares, all of $100 par value.

These managers' shares participate equally with the common in dividends up to 7%; thereafter, the managers' shares are entitled to receive 20% of any further distributions of surplus during the year and the common 80%. As there are only $1,000,000 of managers' shares and $49,000,000 of common stock, any extra distributions would work out as follows: If $1,000,000 was the amount decided upon, 20%, or $200,000, would be set aside first for the holders of the managers' shares, the "extra" on which would thus amount to 20% on the $1,000,000 of preferred stock. This would leave $800,000 to be divided among the holders of $49,000,000 of common, approximately 1-3/5%, or a relative proportion of around twelve to one in favor of the holders of the managers' shares.

In the event of dissolution or liquidation, the preferred, or managers' stock, is entitled to receive an amount equal to the amount paid thereon before any distribution is made on the common; then the common is to receive a sum equal to the amount paid in, after which the managers' shares are to receive 20% of the remaining assets, if any, and 80% applied to the common.

It can be seen readily that as there is 20% of any surplus to be spread over $1,000,000 for the managers' shares, and the remaining 80% spread over the $49,000,000 of common, the holders of the managers 'shares are in a very advantageous position as compared with that of the common stockholders.

It is obvious that the profit sharing features should prove an additional incentive for the holders of these shares to make every effort to develop the business along the most profitable lines, but on the other hand the proportion of profits and equities divisible under some forms of the plan limit the claims on earnings and assets that ordinarily would go to the common stockholders. It will pay any prospective investor therefore to look carefully into the details of any organization where founders' or managers' shares are issued and figure out for himself just what prospect he has for increased earnings in case he buys the common stock; also how he would fare if the occasion ever arose where it became necessary for the corporation to liquidate its assets. A little inquiry of this sort not only would prove informative but might also protect one from any possible disappointment in the future, especially from the claim his stock would have upon surplus equities.

Another angle to it is that the insiders in most cases will be prone to distribute profits, possibly at more frequent intervals, rather than pile up large equities, hidden or otherwise, in accordance with the practice of many corporations, the actual value of whose assets are seldom known by the stockholders in general. The practice of issuing founders' or managers' shares is more or less experimental in this country and only the future will measure the benefits of this type of corporation financing as compared with the time tested forms which aim to accomplish the same purpose by the discriminative selection and use of stock, bond and note issues, etc.

Borrowing On Collateral

Obligations Assumed by the Borrower—When Collateral Should Be Used—How It Aids in Distribution of an Investment

By SCRIBNER BROWNE

THE tremendous amounts of Liberty Bonds now outstanding have caused a great increase in the practice of borrowing on collateral security. Many holders of Liberties have felt that the bonds were pretty nearly the same as money and that they were therefore safe in borrowing a large part of their value. Others have, out of patriotism, invested so heavily in Liberties that they have been short of money for other purposes and have been compelled to borrow. And of course there is the usual amount of borrowing on other kinds of bonds and stocks.

There are some, even among those who are actually borrowing in this way, who do not fully understand the obligations which they assume. And there are many others who are in doubt when, how and to what extent they are warranted in borrowing.

Collateral Loans on Call.

Ordinarily when an investor deposits collateral with his broker to protect his holdings of other securities, the loan which he receives amounts to a call loan. He remains under obligation to take up the collateral and substitute cash for it to the extent necessary to protect his account, whenever the broker requests him to do so, on a reasonable notice.

In this respect the rule is the same as it is when stocks are carried on margin. In that case the broker lends the customer a part of the value of his stocks, and the broker has the right to request his customer to take up the stocks for cash on reasonable notice. In just the same way he may require the customer to take up any collateral which is being used to take the place of cash margin.

It is only occasionally that any difficulty arises in this connection. It is against the broker's interest to inconvenience a customer, and the broker will therefore usually carry the collateral without argument unless there is some special reason for not doing so, or unless the money market should become so stringent that the broker would have difficulty in using the collateral as security for his own loans—rehypothecating it, to use the technical term.

Under ordinary circumstances, if one broker will. Therefore all the custo- security for other holdings, another broke will. Therefore all the customer has to do is to give the first broker instructions to transfer the account as a whole to the second, who has agreed to take it over.

In the past there have been money markets so stringent that little or no money could be borrowed on collateral, so that the customer who had been following this plan found himself in a tight pinch. But with our present improved banking system it is hardly likely that such extreme conditions will be repeated.

Occasionally a customer who has pledged with his broker collateral securities of a highly speculative or doubtful character finds trouble in getting another broker to give him credit on the same collateral, and thus becomes involved in difficulties. The customer should never place himself in such a position that he is dependent on any particular broker for favors that others might be unwilling to grant.

In borrowing from banks on collateral security the procedure is somewhat different. The customer gives his note for the amount of the loan which he gets on the collateral, and the note has a definite date of maturity. The bank, therefore, cannot thereafter object to the collateral or recall the loan until the expiration of the note.

Most loans on Liberty bonds are of this character, and the banks can rediscount such notes with the Federal Reserve Banks. Nevertheless, the aggregate amount of Liberties held by brokerage houses as collateral margin on other bonds or stocks is very large.

Collateral Does Not Release its Owner.

A point to be noted is that the deposit of collateral does not release the borrower from full legal liability for any loss which may exceed the value of the collateral or for any defect in the collateral itself. The inexperienced customer sometimes says:

"My broker has executed my orders and accepted this collateral as protection. Now if he suffers a loss it is up to him."

The law does not take that view of it. The broker acts as the customer's agent in the execution of orders. If the broker exercises reasonable and intelligent care in handling the orders correctly, the customer is responsible for any losses or gains that may result. If the customer borrows money on collateral, the worthlessness of the collateral does not release the customer from the obligation to repay the loan.

The majority of conservative investors might advantageously use collateral a great deal more than they usually do.

The investor who has $10,000 invested in good bonds to return him perhaps 6% is apt to feel that this money is disposed of, and to fall back on any other funds he may have for the purpose of making new investments.

But take the case of the man whose business brings him a dependable income and who is capable of exercising ordinary prudence in the handling of his funds. Suppose that a year or two after his purchase of 6% bonds the money market becomes easy, so that he could borrow at 4% on the bonds as security. In that way he could also carry, let us say, 10 shares of each of five good preferred stocks which would give him an average yield of perhaps 7%. This would give him a yield of 6% on his entire investment, plus an additional 3% on half of it, or an average of 8½% on the whole amount.

Again, suppose the fact comes to his knowledge that a certain company is making a great deal of money, and the price of its stock has not, in his opinion, as yet reflected the improvement. If the stock is of a sound investment character, he may be warranted in investing a small part of his funds in it so as to participate in what he believes to be an exceptional growth of its business.

There is no reason why he should not use his bonds as collateral for that purpose, provided that the transaction is conservatively handled and he does not assume a risk which he cannot afford.

As an Aid in Distribution.

The average business man is justified in owning, in addition to high grade bonds for income, a selection of second grade bonds, preferred stocks and common stocks which in his opinion have good possibilities for an increase in value, and which will also yield him a better rate of interest than the high grade bonds.

If all these securities are conservatively and carefully selected, the bonds can be made to carry the stocks. This would give the investor an average margin of 50% on his entire line, and since the bonds would decline but little in any event, his general position would be adequately protected.

The man who holds nothing but bonds does not, as a rule, get much advantage out of the growth and progress of the companies issuing the bonds. His bond represents merely a certain sum of money due at maturity. It is the stocks which represent a share in the business itself. Therefore the business man who feels himself competent to form some degree of judgment as to the prospect for an enterprise should own stocks as well as bonds.

In this matter, there is no reason why Liberty bonds should not be viewed in the same light as other high grade bonds. And there is certainly every reason why the holder of Liberties who feels that he cannot afford to have his money tied up for a long time at 4¼% interest, should borrow on them instead of selling them. Liberties are selling far below their real value, because of the tremendous amount of them which has been issued. Their low prices are certainly temporary. They should not be sacrificed at any such figures. On the other hand, they are the best collateral in the world, rightly looked upon as practically equivalent to money, and it is a very simple matter to borrow on them.

Readers' Round Table

The Evils of Under-Capitalization

By W. H. FLEMING

MANY changes in public opinion have occurred within the memory of the writer. In finance, as in medicine and politics, I have had to unlearn the lessons that were taught me in the tender days of my youth.

Some twenty years ago, I seem to remember, a bond issue by a company was hailed as a bull argument on the theory that the low rate of interest paid on the bonds left more of the earnings for the common stock; and likewise over-capitalization was viewed favorably by stockholders as promising a larger return per unit of real value.

The latter view resulted in a wave of opposition on the part of the general public who surmised that it was conducive to high prices for the consumer.

We have now swung around to the point where our ideal corporation is one which, instead of being over-capitalized, is greatly UNDER-CAPITALIZED; one which has, in fact, adopted this principle as a settled policy. That this view is equally wrong, and just as harmful, will be apparent upon a little thought.

Under-capitalization is an evil which calls loudly for prompt and effective remedies. It is opposed alike to sound public policy and to the best interests of investors and all honest men.

It eliminates many honest companies. A concern doing business with a capitalization of one million dollars and having a like amount of real value cannot compete with one capitalized at one million dollars but having two millions real value. One dollar cannot do the work of two, and the stronger concern can earn a substantial dividend before the profits of the weaker begin.

An under-capitalized company can spend disproportionate amounts for advertising from its unseen earnings. As extreme examples of this, please recall the vast volume of advertising done by the General Electric Company and the Westinghouse Electric Company during the last few years. Their names and trademarks have been branded upon the brain of every reading American: an advantage hardly attainable by fully capitalized corporations.

Under-capitalization handicaps new enterprises. No concern other than a bank can sell its initial securities at double par. The infant concern labors under enough disadvantages without having this preventable one in addition. Years are required to perfect its organization and develop its properties; and if to these difficulties there be added this final unfair factor, the embryo company will probably abort, or die of aenemia in its second summer. President Wilson once referred to our present banking system as vastly heartening to our young men by affording them new opportunities. How disheartening, then, must be the realization by these young geniuses that they are estopped from undertaking certain honest enterprises because their established competitors have the use of two dollars to their one.

Under-capitalization invites exploitation of the company by its officers. Earnings can be made to appear satisfactory in spite of bonuses and unearned salaries paid to insiders, and unjust commissions paid to under-writers and bankers; and that this is not done oftener is to the credit of the officers themselves and not the system. Would it not be well to remove this temptation from the paths of these wholly human officers?

It with-holds benefits from real owners. This is not the greatest charge that can be brought against it, but is the one most likely to appeal to stockholders. If the par value of my certificate represents only one-half of my actual share of real values, then I am not properly compensated unless I receive double the normal dividend. What advantage is it to the stockholder, for example, that he is assured that "our floor space has been doubled without increasing the book-value of property and plant?" If the facilities have been increased, why not state their sound value instead of concealing it? Can it be possible that these methods are adopted to restrict dividends? If so, why? If the stock-holder does not get the money, who does? Or are the managers incompetent and unable to earn a fair return on the actual capital invested?

The remedy for this evil lies in part with the stockholders. They should assert loudly their right to a distribution of accumulated surplus as well as all earnings in the form of (1st) cash; or in (2nd) securities from the treasury, such as Liberty Bonds; or in (3rd) common stock.

At this point it is customary to suggest as a specific the passage of one or more state and federal laws, and I must confess that I see no other adequate remedy. Corporations should be compelled, in the interest of the public welfare, and for reasons above stated, to capitalize fully all their assets, from whatever source derived. The stockholders would no doubt help some, but could not be expected to act further than would serve their own purposes, which might fall far short of the reforms demanded by the public interest. England has passed and applied such laws to railroad companies for a number of years, with results which compare favorably with developments in this country; but the principle of honest capitalization of all real values should be applied to all corporations, whether railroad or industrial.

Where is the American statesman to father this reform?

A Letter From Cuba

.."We were favored in due course with your notice, explaining to subscribers the situation with which you have been meeting, due to the combined lockout and strike in the printing trades in your city.

"We fully realize that under the condition you mention you should deserve every forbearance on the part of subscribers, but we trust, nevertheless, that ere long a solution will be had whereby you may again be able to get out your editions without difficulty, of which, naturally, we shall be glad, both because the character of your endeavor is one of general utility in the commercial and financial field and because your valued paper is badly needed at times by ourselves here."

—M. & Co., Havana.

Market Statistics

	N. Y. Times 50 Bonds	Dow, Jones Avgs. 20 Inds.	20 Rails	N. Y. Times 50 Stock High	Low	Sales
Wednesday, Nov. 19	73.62	106.15	79.36	88.75	85.80	1,732,289
Thursday, Nov. 20	73.50	108.19	79.65	89.56	86.76	1,179,776
Friday, Nov. 21	73.45	107.73	79.40	90.69	88.58	1,046,574
Saturday, Nov. 22	73.46	108.42	79.39	89.92	88.89	368,883
Monday, Nov. 24	73.19	108.86	79.40	90.48	89.17	803,900
Tuesday, Nov. 25	72.87	109.02	78.87	91.46	89.60	1,022,680
Wednesday, Nov. 26	72.65	107.50	77.97	90.16	88.49	1,180,050
Thursday, Nov. 27		HOLIDAY				
Friday, Nov. 28	72.05	103.72	75.33	87.87	85.14	1,439,063
Saturday, Nov. 29	72.02	103.60	75.86	85.86	84.15	758,625
Monday, Dec. 1	71.84	104.03	74.93	86.70	84.51	1,088,160
Tuesday, Dec. 2	71.70	104.41	75.27	86.78	85.28	851,017
Wednesday, Dec. 3	71.60	105.75	75.65	87.16	86.03	789,347
Thursday, Dec. 4	71.72	107.97	75.97	88.32	86.59	1,039,729
Friday, Dec. 5	71.74	107.42	76.61	89.01	87.41	1,025,913
Saturday, Dec. 6	71.82	107.39	76.99	88.77	87.67	482,614

Odd Lots

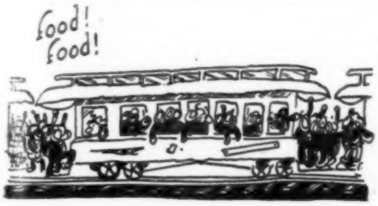
BOSTON TO NEW YORK

A MEMBER of our staff recently visited Boston for one of those famous New England Thanksgiving dinners. The return trip was interesting. His itinerary was as follows:

6.30 p. m. Left Boston by Fall River express.

8.00 p. m. Boat left Fall River.

5.30 a. m. Awakened by violent pounding on state-room door. Informed by colored gentleman doing the pounding that boat was still at Newport. A storm had come up and the captain had been unwilling to trust himself on the vicious waters of Long Island Sound. Further informed that special train would leave for New York at 6.30 a. m.



6.00 a. m. Grand rush for breakfast. Some got it, others did not. Ladies having children to dress continued hungry.

6.15 a. m. Scramble to get off boat. Told that ticket must be stamped by purser—no such announcement having been made in advance. Football rush to purser. More football back again. Off the boat.

6.30 a. m. Everybody lined up on wharf. Cold, raw wind and rain. Not sufficient shelter for all. Visions of pneumonia.

7.45 a. m. After an hour and a quarter's wait, train backs in. More football. Not seats enough; many standing. Doors open. No heat in car. One broken window. Gas left burning until 9 a. m. (No, gentle reader, this was not in Bolshevist Russia. It was at Newport, the principal resort of America's wealth and fashion.)

8.43 a. m. After another hour's wait, train pulls out. Conductor tells passenger to change at 125th Street for Philadelphia. (Absolutely a fact, though you may not believe it.)

9.30 a. m. Fall River. Back now to where we started.

10.41 a. m. Providence. Now only 20 miles farther from New York than when we left Newport. Wait of minutes, but no such announcement made. Some took a chance on breakfast. Two of them got left behind. (Ques.: Why didn't the boat put back into Providence when captain decided not to go to New York? Ans.: Legality of this act would have to be passed upon by Supreme Court. Time required, three to four years.)

12.30 p. m. Sandwich boy invades train. Mobbed by starving populace. Departs a full-fledged profiteer, without getting beyond the first car.

5.10 p. m. New York. Many passengers had eaten nothing so far that day.

On looking over the time-table, our staff member noticed the following in large type: "Information and suggestions tending to improve service are welcome. It is requested that all communications be brief and explicit."

He stated to us that he had not a sufficient command of language to express adequately his opinion of the service as he had come in contact with it. He did, however, make some efforts in that direction, which were "brief and explicit," but we cannot reproduce them here because of the scarcity of asbestos paper under present market conditions.

Ques.: Will said staff member vote for Government ownership? Ans.: "!!*;!!*.!."

WALL STREET FOLLIES

NOW that the movies are represented on the stock list, why not incorporate the "legitimate" theatrical venture also? Imagine the "Shakespeare Producing—and Refining—Company" being launched on the Street to the plaudits of the crowd. Splendid opportunity for short selling

on the announcement that G. Wattaham has joined the company. High-grade buying for accumulation when the news comes out that the company has decided to add a burlesque and ballet feature to the soliloquy scene in "Hamlet."

FLOATING STOCK

SMITHSON—"Do you know that Noah was the greatest financier that ever lived?"

Dibbs—"How do you make that out?"

Smithson—"Well, he was able to float a company when the whole world was in liquidation."—London Tit-Bits.

All's riot with the world.—Chicago Tribune.

Adventures of Mr. Wanta Getrich Quick

Investment Inquiries

N. Y. WESTCHESTER & BOSTON 4½s.

DIRECT OBLIGATION ON ENTIRE PROPERTY

The first mortgage 4½s of 1946 are secured by a first mortgage on the entire property. In addition the bonds are guaranteed unconditionally by the New York, New Haven & Hartford by endorsement. There are outstanding $21,390,000 of these bonds. The property of the company consists of a high speed passenger and freight railroad of about 74½ miles of track, the road extending from the Harlem River above Willis Avenue, New York, through the borough of the Bronx and Westchester County to Mount Vernon, where the line is diverted to different parts of New York. The road is electrically equipped. The bonds are a good second grade investment.

ST. PAUL CONV. 4½s

SECURED EQUALLY WITH OTHER DEBENTURES

These bonds, maturing in 1932, were originally debentures but are now secured equally with the two other debenture issues, under the general and refunding mortgage. The mortgage is a first lien on 718 miles only. It is a second lien on 6,500 miles and a third lien on 2,500 miles.

Formerly St. Paul earned its fixed charges more than twice, but in 1917 the interest was earned only 1.27 times. Under the standard return of course, the earnings provide ample margin for the interest charges ,but on the basis of actual earnings the company would have trouble in meeting its charges. However we do not think there is any danger that the interest will be defaulted in 1920. This is indicated by the relatively high price of the bonds.

B. & O. GENL. REFDG. 5s

EARNINGS HAVE BEEN STEADILY DECREASING

The following figures indicate the declining tendency of this road which was at one time one of the standard railroads of this country: 1915, 1.85; 1916, 1.79; 1917, 1.46; 1918, 1.92.

This year the company earned only about $600,000 net after expenses and rent, compared with about $5,000,000 in the eight months last year. On this basis it could not meet its interest charges. Of course, the standard return is ample protection and will doubtless be continued until the middle of 1920; before that time it is generally hoped that Congress will provide some basis for a permanent guaranty.

Baltimore & Ohio general & refunding 5s of 1995 are not especially attractive in our opinion. This security is based on a second collateral lien on 1550 miles and a third lien on 1350 miles as well as various other liens.

The 4½% convertible bonds of 1933 as well as the 6% bonds of that road have been under liquidation as a result of the unsatisfactory railroad situation and also because of the poor showing which the B. & O. is making. We believe, however, that these bonds can be safely held for income as a permanent investment.

CHICAGO & GT. WESTERN 4s

NOT PARTICULARLY WELL SECURED

The 1st mortgage 4s of 1959 are a 1st mortgage on more than 1,000 miles of road and are further secured by the pledge of $38,922,552 security. In 1918 the road failed to earn its bond interest although in 1917 it was earned 2.30 times and 3.26 times in 1916. This is one of the third rate bonds classed as such because, although it is a 1st mortgage, the road itself has never made a particularly good showing. Indeed nothing was earned on the common stock or on the preferred stock in 1918, nothing earned on the common in 1916, and only a small balance in 1915. In the previous six years nothing was earned on the common stock. It can readily be seen therefore that the bonds are not particularly well secured from an earnings standpoint and consequently are not entitled to a high grade investment rating.

THIRD AVE. INCOME 5s

A SPECULATION AT CURRENT LEVELS

The back interest on these adjustment fives is no longer a factor as, although the company is liable, a receivership for the Third Avenue would wipe out this liability. The tractions are all in a bad way and the outcome is extremely uncertain. The traction bonds, at present levels, selling at receivership prices, have discounted most of the adverse factors in the situation and represent a speculation for surplus funds for those who can well afford to take the risk. The bonds now sell "flat" which means that buyer is now entitled to arrears of interest and of course, there is the speculative possibility of back coupons being paid.

AMER. WATER WORKS & ELEC.

PREFERRED STOCK NOW PAYING 7%

There are $5,450,000 of this stock outstanding at the present time. In 1917, accumulated back dividends on this preferred stock amounted to 21% and a plan discharging the back dividends was formulated providing for the payment of 3% in cash, 9% in 1st preferred stock at par, and 9% in common stock at 22½. Although the shares were issued at prices in excess of prevailing market levels, this plan was satisfactory to stockholders and was declared operative in July 1917. About a month or so afterwards an initial dividend was declared, and the preferred stock has since been receiving this disbursement regularly. The dividend was earned by a splendid margin in 1918 as well as in 1917.

PERE MARQUETTE PFD.

PRIOR PREFERRED A GOOD INVESTMENT

On the basis of the guarantee of the

Government, Pere Marquette is entitled to receive compensation equal to 16.91% on the prior preferred stock, 10.73% on the preferred, and 1.58% on the common. During 1918, the road actually succeeded in earning a small margin above its standard return and in the first six months of this year net operating income was running far in excess of the amount to which the road was entitled while under Government operation. The present system was formed early in 1917 as a reorganization of the old Pere Marquette: and as a result of this reorganization fixed charges were reduced from $6,388,976 in 1916 to $2,845,633 in 1918. Of the three classes of stock, the prior preferred would seem by far the most attractive and at present prices we consider it a good speculative investment. The preferred stock is also a fairly good issue, and promising if held for a long pull. We do not particularly favor the common stock of this road however.

AMER. HIDE & LEATHER PFD.

BACK DIVIDENDS BEING PAID

The company declared an extra dividend some time ago of 2% on its preferred stock, thus cutting down the amount of accumulated back dividends to 113%. The current 7% rate is being paid regularly. About the same time that this extra dividend was declared the company also issued a statement of earnings for the year ended June 30, 1919, showing balance for the preferred stock equal to $20.69 a share. This compares with $18.35 a share on the preferred in 1918, with $13.56 a share in 1917, and in 1916, $12.64 a share.

Various plans for the payment of the back dividends on American Hide & Leather have been proposed from time to time, but thus far none of these plans has been effected and the payment of extra dividends on that stock is, by some, taken as an indication that that method of payment will be the one adopted by the company.

ANACONDA COPPER

RECOMMENDED AS AN INVESTMENT

On account of delay in settlement of the peace treaty large stocks of unsold copper have come into the market which has not acted to the advantage of copper stocks as a whole. Anaconda has a good investment value and we believe that well informed buying is now taking place. We would not take a chance of selling now to buy at a lower level as it is our impression that the copper issues have now reached uniformly low levels from which there should be very little or any further reaction.

NATL. ENAM. & STAMPING

PRESENT PRICE ATTRACTIVE

The company shows good earnings this year and it is reported that the common dividend may be increased above 6%. Earnings for the year are estimated to be at the rate of $25 a share. However, dividends were only inaugurated on the common stock in 1917, and the stock is hardly seasoned as yet. At the present price the stock seems attractive.

SUPERIOR STEEL

STOOD UP WELL IN BREAK

The corporation owns 20 acres of land near Carnegie, Pa., on which are located three hot rolling mills, 12 cold rolling mills and electric power plant, steam power plant, five gas producers, etc. The annual capacity of the hot rolling mills is about 15,000 tons. It is a very small concern, the principal property being valued at only $1,675,000.

The company has no funded debt, and its capital stock consists of $2,482,000 preferred 8% cumulative convertible; $1,378,000 8% cumulative convertible second preferred, and $6,000,000 common. The par value of both issues is $100. The company has paid regular dividends on the preferred stocks since 1916, and has paid on the common 1½% in 1917, 6% in 1918 and in 1919 is paying at the rate of 3% per annum. The reduction in the dividend rate this year was made in June.

At present prices the stock pays in the neighborhood of 7% and it withstood a recent market break very well.

PEOPLES GAS & COKE

STOCK MAY HAVE UPTURN SOON

Like so many other public utilities, this company has been up against increasing operating expenses and has had difficulties in persuading the Chicago Utility Board to increase rates. In our opinion the pessimism now so prevalent concerning public utilities has been much overdone, however, and there are indications that the peak of operating expenses has been reached, so that from now on probably a downward tendency will be noticeable in costs.

NORTHERN PACIFIC

STOCK APPEARS TO HAVE GOOD PROSPECTS

While this year's earnings do not show up quite as well as they did last year we believe the stock has good prospects. The net operating income for the nine months ended September 30th was $12,371,141 or at the annual rate of $17,116,500. Had Northern Pacific not been under Federal control, it is estimated that the company would have earned $3.10 a share.

U. S. INDUSTRIAL ALCOHOL

CONTROLS SUBSTITUTE FOR GASOLINE

At present prices this stock would hardly be called an investment. As a speculation however, it has merit. The invention of a new fuel for motors, known as "alco-gas," has been successfully used by the Government, according to reports, and inasmuch as this fuel can be produced much more cheaply than gasoline, it adds much speculative value to the stock. Stockholders of the company authorized an increase in the common stock from $12,000,000 to $24,000,000 to provide for the sale of 120,000 shares.

UNITED FRUIT

EARNINGS MAY PERMIT EXTRA DIVIDENDS

United Fruit has a very valuable equity in its Cuban sugar properties and there are also rumors of oil possibilities on its extensive land holdings in Central America. The company is expected to earn around $45 a share for the 15 months period up to January and if this is the fact, extra dividends in 1920 would not be surprising.

KENNECOTT COPPER

PRODUCTION CURTAILED BUT PROSPECTS GOOD

The company is one of the lowest cost producers in the world and owns valuable properties in Alaska as well as South America. Production has been curtailed this year, the first seven months' combined output amounting to 39,529,560 pounds in 1918. Last February, Kennecott, with its Braden property, was said to have on hand between 5,000,000 and 60,000,000 pounds of unsold copper. Kennecott Copper in our opinion has better prospects than most of the low priced copper stocks.

MIDDLE STATES OIL

EARNINGS BEING USED FOR NEW DEVELOPMENT

Company appears to be a good speculation. Most of its earnings over and above the dividends are being placed in new development work, however, and of course there is always the possibility that this development will not work out as planned. Recently the company acquired a controlling interest in the Dominion Oil Co., of Texas. It has also purchased a fifty acre lease in the Burk-Burnett Field, including seventeen producing oil wells, for the sum of $3,000,000.

SEABOARD AIRLINE

NOT SO PROMISING AS OTHER RAILS

On the basis of the guarantee of the Government the road is entitled to receive 3.70% on the preferred stock but nothing on the common. During 1918 nothing was earned on either the preferred or common stock and for the first seven months of this year net operating income has fallen far short of the standard return to which the road is entitled. It was recently announced that the Government would allow a compensation of $6,920,025 to the road. We do not consider this issue particularly attractive.

ALLIED PACKERS

FUTURE DEPENDS LARGELY ON BIG INTERESTS

The company is a merger of seven large independent packing companies, including the largest Canadian company, and has a strong directorate. Its future will depend to some extent upon the attitude of the "Big Five" or packing "trust." Preliminary statement of earnings for the fiscal year ended April 30th showed net earnings after taxes of $6.75 a share on the 200,000 shares of common stock which are being issued, after allowing for annual interest on the $16,000,000 6% debenture bonds to be issued and payment of 7% on the $5,305,000 preferred stock. The bonds are attractive because of conversion privilege (at 77). Interest was earned nearly three times in last fiscal year, and net quick assets almost equal the amount of bonds. The common stock we believe has fair prospects as a speculation.

U. S. TRANSPORT CO.

TO OPERATE U. S. STEAMSHIP'S VESSELS

U. S. Transport Co., Inc., was recently formed with an authorized capital of $25,000,000 and this stock is being offered to stockholders of the U. S. Steamship Company at $10 a share. The company will acquire all the vessels built or now being built by the U. S. Steamship Co., and its subsidiaries, and will operate all new steel, oil burning, cargo-carrying vessels. It is estimated by the management that within the period of 12 months the company should be in active operation, with an aggregate carrying capacity of over 200,000 tons.

BETHLEHEM MOTORS

HAS ONLY SPECULATIVE MERITS

The stock has recently been listed on the New York Stock Exchange. The company was formed late in 1916 and while a deficit was reported for the thirteen months ended December 31, 1917, as well as in 1918, for the six months ending June 30, 1919, this deficit was turned to a substantial profit amounting to $365,626. The company has no connection with Bethlehem Steel Corporation. Bethlehem Motors is a comparatively young concern and it is too early yet to rate it in any way except as a speculation. As such it seems to have merit.

RAY HERCULES COPPER

DEVELOPING CLAIMS NEAR RAY CONS.

Ray Hercules was put out some years ago at 3.75 and has fluctuated between as high as 8, and as low as 1½ in recent months. The par is $5. The company is developing a large number of claims adjoining Ray Consolidated at Ray, Arizona, and the property has all the ear marks of a large mine in the development stage. We regard the shares around current figures as a long pull with good possibilities.

SUGGESTIONS ON INQUIRIES

THE heavy volume of inquiries which this publication is receiving makes it necessary to ask our subscribers to co-operate with us in order that we may maintain and improve the high quality of service which the Investors' Personal Service Department renders to our readers. We therefore suggest that:

1. Not more than three inquiries be submitted at one time. Occasionally a subscriber sends in a long list of securities, asking for an opinion on each. The careful manner in which the Department handles its inquiries makes it impossible to give same the immediate attention necessary, without slighting other inquiries.

2. Trial subscribers are entitled to an opinion on ONE security, in terms of our "trial offer."

3. In case an immediate answer is desired on more than three securities, we make a charge of $1 each for the additional number (but not to Investment Letter subscribers).

4. Enclose stamp or stamped self-addressed envelope.

The above suggestions are drawn up for the benefit and protection of our subscribers and those inquiries which conform with them will receive first attention.

Current Stock Offerings

The salient facts concerning current stock offerings. No opinion or rating of any kind is attempted, and the object is purely to keep readers informed on the more important issues.

ALUMINUM MANUFACTURES, INC., 7% CUM. PREF. Company is to be organized under laws of Delaware to acquire and extend the plants and business of The Aluminum Castings Co., one of the leading companies of its kind in the U. S., and to manufacture other products of aluminum. Production will be substantially increased by addition of plant capacity. Controlling interests closely allied with the Aluminum Co. of America, which has virtual monopoly of virgin aluminum output in this country. During four years ended December 31, 1918, net profits of old company, after payment of taxes, averaged more than five times dividend requirements on proposed $5,000,000 issue. Readjustment from war to peace basis now practically completed, and while earnings in first nine months have been below average in previous four years, believe that total 1919 earnings should be larger. Asset values quite large. Notes of Aluminum Castings Co. outstanding to be paid off, and outstanding and authorized capitalization will consist of $5,000,000 7% pref. and 400,000 shares of common with no par value. Liberal sinking fund and number of safeguards for preferred. Offered at 100 to yield 7%.

BERKEY & GAY FURNITURE CO. 7% CUM. PREF. Property is one of the largest manufacturers of high-grade furniture in U. S. Started in business in 1859, and its plants at Grand Rapids, Michigan, now have aggregate floor space of 20 acres. Average annual net earnings during past seven years have amounted to almost 2¾ times present preferred dividend requirements, after depreciation and taxes. Dividends on common have been paid almost uninterruptedly for the past 25 years. Proceeds of issue will materially increase volume of business that can be handled. Net quick assets, $265 for each share of preferred, and net tangible assets, $324 a share. Issue has been authorized by Michigan Securities Commission, and in accordance with that state's statutes will be redeemed at par on Feb., 1933. Outstanding capitalization, $650,000 7% cumulative preferred and $800,000 common. Exempt from personal tax in Michigan. Offered at 99 to net about 7.10%.

EATSUM PRODUCTS CORPORATION 7% CUM. PREF. Company manufacturers the "Eatsum" brand of preserves, jams and jellies. Activities so far have been confined mainly to manufacturing and selling orange and grape fruit preserves manufactured by an exclusive process, but expects to manufacture jams and jellies soon. Preferred stock issued to provide additional working capital and to increase capacity of plant at Orlando,

Fla. Dividend requirements covered with wide margin, and net quick assets about $125 a share and net tangible assets, $175. Management same as previously, and is stated to be of very high calibre. Liberal sinking fund and careful safeguards provided for preferred stock. Issued capitalization $400,000 pref. par value, $100 and $907,350 common, with par value $50. Offered at 94 to net 7.45% and one share of common as bonus.

HODGMAN RUBBER CO. 8% CUM. CONV. PREF. Is the oldest company engaged in the manufacture of rubber goods in the U. S. Manufactures a large and highly diversified line of rubber goods. Proceeds from sale will be used to retire $197,500 of old preferred and to provide additional working capital and equipment. Dividend requirements earned by wide margins for a number of years. Convertible into common at any time, share for share. Outstanding capitalization $1,000,000 8% cum. pref., par value $100 and 12,100 shares of common with no par value. Liberal sinking fund. Offered at 100 to net 8%.

HYDRAULIC STEEL 7% CUM. CONV. PREF. Company being organized in Ohio to take over the business and subsidiaries of old company of similar name, without change of control or management. Among company's principal products are automobile parts, frames, truck tire bases, sheets, bar shapes, ingot steel, etc. Sales have been showing good expansion, and are now at a record figure, as are also unfilled orders. Net profits of companies to be merged show dividend requirements earned with large margins. Net tangible assets about $200 a share. Each share of preferred convertible into 2 2-9 shares of common from April 1, 1920, to April 1, 1921, and 2 shares thereafter. Relations with labor stated to be very amicable. $6,000,000 amount of preferred issue. Careful restrictions to protect asset and earnings position of preferred. Non-taxable in Ohio. Offered at 100 to net 7%. Common offered at 44.

MARACAIBO OIL EXPLORATION CORPORATION. Formed to take over and develop extensive lands in Venezuela, showing very promising and profitable oil formations and seepages. Corporation owns concessions from Government totaling more than 750,000 acres. Acreage acquired includes some of the most wealthy potential lands in the Maracaibo Valley. In addition to acreage referred to above, company has options on 125,000 acres. Plans have been made for rapid development of the corporation's properties, and its relations with Venezuelan Government are friendly and thoroughly satisfactory. Very prominent names connected with corporation, and technical skill appears to be of an excellent character. Capital consists of 250,000 shares without par value, and there are no bonds or preferred stocks. Subscription price, $26 a share.

Underlying Utility Bonds

Continued from page 136

this eventuality, however. The $100,000,000 investment of the city in the new subway lines receives a return only after the company has received a preferential more than sufficient to cover bond interest. The city thus has a direct interest in seeing the Interborough on a paying basis and it is scarcely within the bounds of probability that the present five cent fare will be enforced indefinitely. A six cent fare would come pretty close to supporting the company and with a seven cent fare the bondholders would be well protected. Personally, I believe that they should hold on and not pay too much attention to the wild market fluctuations.

Manhattan Railway Consolidated 4s of 1990 cover by first lien the elevated portion of the Interborough system. They have sold down to 55 because of rumors that the Interborough would terminate the lease which calls for the payment of bond interest and dividends of 7% on the $60,000,000 capital stock. It is true that the elevated lines are not earning their rental in full, but they appear to be able to earn the bond interest portion of it even on a five cent fare. With a modest fare increase the bonds would attain their old position as a premier investment. They are among the few bonds in the traction class which can be given a recommendation as a thoroughly desirable present purchase. At 55 they yield about 7.30%.

The New York Railways, operating most of the surface lines in Manhattan, has a number of underlying and leased line bonds. Among the most prominent of them are the Broadway and Seventh Avenue 5s of 1943, now about 49; the Lexington Avenue and Pavonia Ferry 5s of 1993, now about 48; and the Columbus and Ninth Avenue 5s of 1993, now about 49. Under a five cent fare the New York Railways is unable to earn operating expenses and taxes and even under a seven cent fare it would not be nearly so well off as the rapid transit lines with their lower operating costs. These underlying bonds cover some valuable real estate, however, and are selling at prices probably not far from their liquidating values. A general improvement in the transit situation would tend to put their market values considerably higher, but as permanent investments they scarcely seem attractive. The rapid transit lines have taken traffic from the surface roads which they will never get back. Operation is very expensive and it may be just as well to sell all New York surface line bonds if a favorable opportunity is presented.

Much the same difference between the status of the rapid transit and the surface lines is found in Brooklyn. Two of the best bonds on the system are the Brooklyn Union Elevated 5s of 1950, now about 64½, and Kings County Elevated 4s of 1949, now about 60. They cover very valuable portions of the rapid transit facilities and it is most unlikely that they will suffer in any way in the reorganization of the company. The many surface line bonds are all in a bad way and only the wildest guesses can be made as to their eventual outcome. Some of the

lines appear to have little chance of establishing permanent earning power and most all suffer from competition with the rapid transit roads.

In Chicago a little more progress has been made than in New York in adjusting traction fares. The elevated lines receive eight cents and the surface lines seven cents, with ten tickets for sixty-five cents. Chicago Railways Co. operating the surface lines, failed by about $375,000 to earn its fixed charges of $5,300,000 in the year ended January 31, 1919. In October 1919, however, earnings were slightly in excess of those in October 1917 as a result of the higher fare. The First Mortgage 5s due 1921 are down to 65, but they are protected by an official valuation of $90,587,640 against $58,506,000 of these bonds and are quite secure.

Peoples Gas, Light & Coke Co., supplying Chicago with gas, has been hard hit by the higher cost of coal and fuel oil. In the year 1918 the company reported a deficit after interest charges and depreciation, but earned about $300,000 over bond interest alone. In August 1918, a rate increase of 27½% was granted, making the rate 89¼ cents. In August 1919 the rate was reduced 3 cents. There has been a great deal of litigation and the company's prospects are most uncertain. The $24,077,000 of underlying bonds are adequately protected, however, and the $20,544,000 Refunding 5s of 1947 are intrinsically sound, though they sell at about 64.

Detroit United Railways Consolidated 4½s of 1932 furnish an instance of a decline in market value brought about more in sympathy with the general trend of traction securities than through any weakness in their position. After having sold as high as 86¾ in 1917 they are now down to 68, yielding about 8% to maturity. There are outstanding $14,550,000 of this issue, subject to only $7,580,000 prior liens. There are also some notes making a total debt of $35,851,500. An appraisal in 1915 fixed a valuation, less depreciation of $50,815,063. About $5,000,000 has since been spent on the property. In 1919 the city was considering the purchase of the city lines, exclusive of several hundred miles of suburban lines for $31,500,000. Even in 1918 the company earned its fixed charges and taxes 1.7 times and thus far in 1919, with higher fares in effect, it has done even better. The bonds are thoroughly good.

Lack of space prevents my touching upon more than the few most prominent and typical instances just discussed. Of course, each case has its aspects peculiar to itself, yet is affected by those tendencies which are general to all public service corporations and which are an unfortunate product of the times. Let me again urge holders not to be shaken out of their securities through any panicky feeling induced by an abnormal and doubtless temporary condition. Seek the fullest information and if it then appears that the issue in which you are interested is not intrinsically sound, by all means sell and put the money into something better. But if the security is basically good and is merely the victim of circumstances await the completion of the readjustment which, while tardy, is certainly under way.

Current Bond Offerings

Briefly Discussed and Analyzed

Issue	Maturity	Offering Price	Yield to Maturity		
Government and Municipal:					
*Joint Stock Land Bank 5s	1924 or 1939	102	4.50%@5%	(c)	(d)
City of Dallas 4½% Bonds	1920-'53	97.39@ 99.85	4.65	(a)	
Passaic County, N. J., Road 5s	1920-'37	100.48@106.12	4.50	(a)	
*Texas County, Mo., Serial 5s	1920-'39	100.19@102.55	4.80	(a)	
*Butler County, Mo., Drain. Dist 6s.	1924-'39	103.04@108.57	5.30	(a)	
City of Omaha, Neb., Sewer 4s	Sept., 1921	97.30	4.75	(a)	
New Hanover County, N. C., School 5s	1925-'39	101.03@102.55	4.80	(a)	
*City of Toronto Municipal 5½s	1922-'33		6.25		
Public Utility:					
*Standard Gas & Electric 7% Conv. Notes	Nov., 1921	99	7.50	(b)	(d)
Manchester Traction, Light & Power 6% Notes	Nov., 1922	96¼	6.75		
*Keystone Telephone of Phil. 1st Coll. 6s	Nov., 1929	97	6.40	(b)	
*Paducah Electric First 5-year 6s	July, 1924	95¾	7.00	(b)	
Little Falls Water Power 1st Ref. 6s	Dec., 1925	98	6.30		
Industrial:					
*Grace Steamship 1st Equip. 6s	1920-'34	...	6@6.50		
*International Cotton Mills 7% Notes	Dec., 1129	100	7.00	(d)	
*Federal Sugar Refining 5-year 6% Notes	Nov., 1924	97¾	6.50	(b)	
*Brown Company Deb. Serial 6s	1920-'39	98-100	6@6.15	(b)	
Shaffer Oil & Refining 1st Conv. 6s	June, 1929	95	6.75	(b)	

(a) Exempt from Federal Income tax, including surtax. (b) Company pays normal income tax to the amount of 2%. (c) Exempt from Federal, State and Municipal taxation as to interest and principal, excepting estate and inheritance taxes. (d) Available in $1,000 and $500 denomination. (e) Available in $500 and $100 denominations. (f) Exempt from State and local and from Federal normal income tax. (g) Without deduction from Federal income tax up to 4% so far as is legally permitted. (*) Discussed in text.

JOINT STOCK LAND BANK 5s Instrumentalities of U. S. Government secured by first farm mortgages approved by Government. Bonds exempt from all American taxes excepting estate and inheritance taxes, and legality of exemption approved by Kansas City District Federal Court and number of leading legal authorities. Case appealed to U. S. Supreme Court. Yield at offering price of 102, 4.50% to optional date (1924) and then 5% to maturity. Especially attractive for large investors in view of exemption from income taxation.

TEXAS COUNTY, MO., SERIAL 5s. Obligation of largest and one of the most prosperous areas in Missouri. Interest and principal payable from unlimited ad valorem taxes irrevocably levied against all real estate and personal property in the County. Issued to provide funds to construct a system of hard surface roads making connection with active and rich country. This issue outstanding to amount of $225,000, only bonded debt of county, and very small fraction of assessed value of taxable property in 1917.

BUTLER COUNTY, MO., DRAINAGE DISTRICT 6s. District embraces 200 square miles of fertile lands in Southeast Missouri, the area included being nearly 30% of Butler County. Good transportation facilities and surrounding country rich and progressive. No default on bonds of Butler County or any of its subdivisions has ever occurred and a number of drainage districts within the county have paid off their obligations in advance. Administration is efficient, the governing board being composed of large land owners in district. Tax collections very satisfactory. Legal for a number of fiduciary purposes in Missouri. A fairly good municipal, and high yield, considering tax exemption, makes it quite attractive.

CITY OF TORONTO 5½s. Bonds are a direct general obligation of City of Toronto, enforcible by tax on all taxable properties within city and were issued for various municipal purposes. Toronto is one of the leading and wealthiest cities in Canada, and its proximity to Niagara Falls assures cheap electric power. Large manufacturing center and exports products all over world. Total net debt about 10% of assessed valuation of ratable property, and sinking fund and auditing systems well maintained. Interest and principal payable in New York City or in Toronto upon option of holder. Yield of over 6% makes bonds very attractive, especially longer maturities. Additional bonds maturing 1937 to 1949, inclusive, offered in Canada at prices to yield 5¾%, payable in Canadian funds, and are available to American investors on such terms, strictly subject to prior sale and change in price.

STANDARD GAS & ELECTRIC 7% NOTES. Direct obligation of Standard Gas & Electric, holding and managing company for Byllesby properties, and has recently acquired large Shaffer Oil and Refining properties. Utilities are mainly gas and electric concerns and serve a population of more than 2,000,000 well scattered throughout country. Notes secured by deposit of subsidiary companies stocks and bonds whose value is considerably in excess of amount of notes authorized and issued. Notes convertible, par for par, into preferred or common stock of Standard Gas & Electric Company. Earnings cover interest charges with good margin. A good short term issue giving quite an attractive yield.

KEYSTONE TELEPHONE CO OF PHIL. 6s. Company has been in successful operation in Philadelphia for about

18 years. Proceeds will be used to install an automatic telephone system which, it is stated, will give Philadelphia the most efficient and quickest service available, and will result in great operating economies. Bonds secured by deposit of company's first mortgage bonds to amount of $1,500,000 and $966,000 equipment bonds. In addition sinking fund is provided, which will retire more than 60% of bonds issued before maturity. Amount outstanding $1,100,000. Free from Pennsylvania state tax, and company contracts to pay normal income tax, so far as it may be legal for it to do so. Considering very strong security, rather attractive at the offering price and yield.

PADUCAH ELECTRIC First 6s. Properties owned and controlled by company include electric station, gas works with large generating system, heating mains, 17 miles of standard gauge railway and valuable real estate and buildings. City is located in northwestern part of Kentucky at junction of the Ohio and Tennessee Rivers, and is in the middle of a diversified, prosperous and growing territory. Net earnings cover interest requirements a number of times over.

GRACE STEAMSHIP MARINE 6s. One of a few marine obligations offered in late months. Secured by direct first mortgage on 13 vessels all of modern construction having a deadweight tonnage of 70,035 tons, and additional property, exceeding considerably in value amount of bonds issued. Bonds will be additionally secured by pledge under mortgage of charter party or parties entered into by W. R. Grace & Co. for a minimum hire sufficient to meet all charges in connection with these bonds and claims against the vessels pledged. W. R. Grace & Co. agree also to pay additional charter hire equal to one half of their net earnings from operation of vessels. Insurance of equipment well protected. For year ended December 31, 1918, net earnings of W. R. Grace fleet amounted to $3,000,000, about five times interest requirements on this issue.

INTERNATIONAL COTTON MILLS 7s. Company one of the largest producers of cotton duck in U. S. Has no funded debt and agrees not to mortgage any of its properties so long as any of these notes are outstanding. Net assets (after deducting all liabilities excepting these notes) nearly three times their outstanding amount. Notes followed by stocks having market value of $10,600,000. Liberal sinking fund and net earnings ample to give strong protection to interest requirements. A well secured note yielding a very satisfactory return.

FEDERAL SUGAR REFINING 6s Company owns and operates one of the best and largest single sugar refineries in the world, conservatively valued at over $12,000,000. Capacity has been materially increased since 1904, being paid for out of earnings, and is now in excess of 10,000 barrels daily. Notes after January 1, 1920, will be only funded indebtedness of company, and are outstanding to amount of $3,000,000. Well secured by assets, earnings and liberal sinking fund. Federal Sugar Refining 5% notes, due January 1, 1920, will be received at par in payment for these notes.

Financial News and Comment

Note.—The Railroad and Industrial Digest, Notes on Public Utilities, Oil Notes and Mining Digest, contain condensations of the latest news regarding the companies mentioned. The items are not to be considered official unless so stated. Neither The MAGAZINE OF WALL STREET nor the authorities for the various items guarantee them, but they are selected with the utmost care, and only from sources which we have every reason to believe are accurate and trustworthy. Investment commitments should not be made without further corroboration.—Editor.

Railroads

RAILROADS

ATCHISON, TOPEKA & SANTA FE RY.—Changes—The resignation of I. P. Ripley as president of the company was presented and accepted by directors, effective Jan. 1 next, and W. B. Storey, now Federal manager of Atchison, was elected to fill the vacancy.

Henry C. Frick, who was a director of the company, died on Dec. 3, aged 70.

BALTIMORE & OHIO R. R.—Income Accounts—1919—Earnings: Oct. gross, $7,224,195; net after taxes, $996,-929; net operating income, $690,205 (an increase of about 70% over last year); 10 months gross, $59,675,322; net after taxes, $4,519,855; net operating income, $3,999,062 (a decrease of 6% from last year).

1918—Earning: Oct. gross, $6,104,-232; net after taxes, $400,586; net operating income, $403,044; 10 months gross, $57,896,268; net after taxes, $5,769,585; net operating income, $4,245,732.

BOSTON & MAINE R. R.—Report—There has been filed at Albany, N. Y., the consolidation agreement of the Fitchburg R. R., Boston & Lowell R. R. Corp., Connecticut River R. R., Concord & Montreal, Lowell & Andover R. R., Manchester & Lawrence R. R., and Kennebunk & Kennebunkport R. R., with the Boston & Maine R. R. capital $81,472,800. The principal office will be at Boston and another at Troy, N. Y. At a meeting of reorganization managers of the Boston & Maine leased line officials and a representative of the Railroad Administration, the end of the receivership was consummated.

CHESPEAKE & OHIO RY. Income Account — 1919 — Earnings: October gross, $6,771,577; net after taxes, $464,194; net operating income, $445,659 (a decrease of more than 363% from October, 1918); 10 months gross, $60,441,309; net after taxes, $9,732,763; net operating income, $8,588,591 (or a decrease of more than 54% from the corresponding period in 1918).

1918—Earnings: October gross, $7,-467,628; net after taxes, $2,225,805; net operating income, $2,067,794; 10 months gross, $59,367,964; net after taxes, $13,-543,567. The company has been paying the regular semi-annual 2% dividend since 1916.

CHICAGO, BURLINGTON & QUINCY R. R.—Income—1919—Earnings: October gross, $16, 281, 562; net after taxes, $3,829,534; net operating income, $3,710,997 (an increase of more than 10% over October, 1918); 10 months gross, $128,485,759; net after taxes, $25,002,369; net operating income, $23,060,912 (an increase of more than 12% over 1918).

1918—Earnings: October gross, $14,-429,333; net after taxes, $3,537,511; net operating income, $3,360,194; 10 months gross, $118,462,046; net after taxes, $21,-600,803; net operating income, $20, 482,-673.

CHICAGO, MILWAUKEE & ST. PAUL—Income Account—1919—Earnings: October gross, $14,798,636; net after taxes, $2,173,783; net operating income, $2,088,472 (an increase of more than 700% over October, 1918); 10 months gross, $125,060,892; net after taxes, $5,402,776; net operating income, $4,126,306 (a decrease of more than 13% from last year).

1918—Earnings: October gross, $11,-816,516; deficit after taxes, $306,744; net operating deficit, $445,619! 10 months, $110,582,670; net after taxes, $5,319,129; net operating income, $4,-679,070.

CHICAGO & NORTHWESTERN RY.—Income Account — 1919 — Earnings: October gross, $14,252,588; net after taxes, $2,460,350; net operating income, $2,444,617 (a decrease of more than 33% from October, 1918); 10 months gross, $116,365,240; net after taxes, $14,292,153; net operating income, $13,873,333 (an increase of more than 4% over 1918).

1918—Earnings: October gross, $13,-876,431; net after taxes, $3,375,232; net operating income, $3,256,843; 10 months gross, $105,303,522; net after taxes, $12,-655,364; net operating income, $12,950,-602.

CLEVELAND, CINCINNATI, CHICAGO & ST. LOUIS RY.—Income Account — 1919 — Earnings: October gross, $7,468,982; net after taxes, $2,-116,232; net operating income, $2,053,-084 (an increase of more than 6% over last year); 10 months gross, $60,561,108; net after taxes, $13,099,674; net operating income, $12,269,790 (a decrease of less than 1% from last year).

1918—Earnings: October gross, $7,-137,150; net after taxes, $1,229,788; net operating income, $1,247,757; 10 months gross, $58,959,790; net after taxes, $13,-413, 815; net operating income, $12,387,-220.

LEHIGH VALLEY R. R.—Income Statement—1919 — Earnings: October gross, $6,210,026; net after taxes, $469,-578; net operating income, $529,528 (a decrease of more than 62% over last year); 10 months gross, $53,379,837; net after taxes, $3,313,836; net operating in-

come, $3,292,038 (a decrease of more than 67% from last year).

1918—Earnings: October gross, $6,292,522; net after taxes, $829,250; net operating income, $859,195; 10 months gross, $53,678,353; net after taxes, $5,330,488; net operating income, $5,503,834.

NEW YORK, NEW HAVEN & HARTFORD R. R.—Income Accounts—1919—Earnings: October gross, $10,346,763; net after taxes, $1,692,762; net operating income, $1,257,355 (an increase of somewhat less than 50% over October, 1918); 10 months gross, $87,075,144; net after taxes, $8,316,615; net operating income, $5,618,833 (a decrease of about 50% from last year).

1918—Earnings: October gross, $9,353,128; net after taxes, $1,507,728; net operating income, $811,387; 10 months gross, $85,055,277; net after taxes, $12,308,357; net operating income, $8,846,338.

On Dec. 11 a motion granted by Judge Hand of the Federal District Court will be heard by Judge Mack asking that the $150,000,000 restitution suit brought by Edwin Adams and other stockholders of the road against William Rockefeller and other officers and directors of the company be restored to calendar for trial.

PENNSYLVANIA R. R. CO.—Income Account—Eastern Lines: 1919—Earnings: October gross, $36,030,244; net after taxes, $2,272,098; net operating income, $1,939,852 (a decrease of about 60% from October, 1918); 10 months gross, $318,884,368; net after taxes, $19,550,133; net operating income, $17,397,414 (a decrease of about 4% from last year).

1918—Earnings: October gross, $37,010,855; net after taxes, $3,297,168; net perating income, $3,095,733; 10 months gross, $301,212,035; net after taxes, $22,960,744; net operating income, $18,261,560.

Western Lines: 1919—Earnings: October gross, $10,607,011; net after taxes, $979,719; net operating income, $1,047,119 (a decrease of 18% over last year); 10 months gross, $89,190,596; net after taxes, $8,565,002; net operating income, $7,916,252 (a decrease of more than 123% from last year).

1918—Earnings: October gross, $10,368,834; net after taxes, $1,130,143; net operating income, $1,236,903; 10 months gross, $77,375,670; net after taxes, $4,842,330; net operating income, $3,539,373.

Net operating income of the Eastern lines for October, 1919, shows a decrease of only 18% from October, 1918, whereas the net operating income of the Western lines shows a decrease of more than three times that amount; and while the net operating income of the Eastern lines for the 10 months of 1919 was but little smaller than the corresponding period in 1918, the Western lines showed a decrease of over 122% from the same period in 1918.

PITTSBURGH, CINCINNATI, CHICAGO & ST. LOUIS R. R.—Income Account—1919—Earnings: October gross, $8,930,380; deficit after taxes, $345,373; net operating deficit, $587,142 (an increase of more than 68% from last year); 10 months gross, $77,920,040; net after taxes, $2,964,130; net operating income, $2,233,690 (a decrease of more than 72% from last year).

1918—Earnings: October gross, $8,-996,414; net after taxes, $1,094,954; net operating deficit $978,620; 10 months gross, $72,249,642; net after taxes, $5,-815,036; net operating income, $3,861,-481.

SOUTHERN RY.—Income Account—1919—Earnings: October gross, $12,-356,555; net after taxes, $1,222,070; net operating income, $930,566 (a decrease of more than 271% from last year); 10 months gross, $105,782,844; net after taxes, $9,279,613; net operating income, $7,947,133 (a decrease of more than 230% from last year).

1918—Earnings: October gross, $12,-269,788; net after taxes, $3,561,761; net operating income, $3,455,811; 10 months gross, $105,380,259; net after taxes, $27,-785,632; net operating income, $26,273,-589.

Since the earnings for the first 10 months of the current year are hardly more than sufficient to cover interest charges, practically nothing is being earned on the company's stock.

Industrials

AMERICAN ANILINE PRODUCTS CO.—New Merger and Outlook—Details of a combination of large chemical interests to be made by this company will be made known shortly. The companies involved in the deal are the Union Dye & Chemical Co., Rollin Chemical Co. and the Clinchfield Chemical Co. of Johnson City, Tennessee. President Wilson's statements in regard to the protection of the American Chemical industry, which is still in its infancy, against foreign competition were encouraging to companies in this line of business.

AMERICAN TOBACCO CO.—New Foreign Plans—President Hill before sailing for Europe said that the purpose of his trip was to consider having a factory in France for making cigarette paper to be used in America. It appears a factory has been offered to the company. Another purpose is to make future contracts for cigarette paper with French firms. This enterprise, if realized, ought to increase the company's earnings considerably. The declining rate of French exchange will enable the company to undertake business on a large scale at comparatively low expenditure.

BALDWIN LOCOMOTIVE WKS. Report—Directors of the company have declared a dividend of 3½% on the common stock and the regular semi-annual dividend of 3½% on the preferred, both payable Jan. 1 to holders of record Dec. 6. This is the first distribution on the common stock since January, 1917, when 1% was paid. The payment of dividends on common is no doubt a direct result of the remarkable improvement in the company's financial condition. The company has arranged with banks the sale of notes it will receive from Poland for 150 engines ordered by the Polish Government. It is understood the company will discount the notes with the banks at 94. The order involves $8,000,000. The company took it on a long-time-credit, the first payment to be made in 4 years, with arrival instalments for another 6 years. By arrangement for the underwriting of these notes, the company will get cash for the engines when they are

delivered. Even after allowing for discount the company should make a handsome profit on the engines.

CHICAGO PNEUMATIC TOOL CO.—October Record Orders — The company reports gross orders booked in October in excess of any previous month since the armistice. The same is true of its English and German subsidiaries. The latter were seized by the German Government and run under "compulsory administration," but this has now been abolished and the management transferred back to the company. Reports show that the German company was well managed during the war and is now operating on a satisfactory and profitable basis. Arrangements have been made to increase production materially. The company plans to increase its earnings substantially by expending the sum of $6,448,800 for the redemption of bonds now outstanding and the extension of plants and of sales and service branches. The proposed retirement of the bonds would free the company from all fixed charges, including sinking fund requirements and leave no capital liabilities, other than $12,-897,600 capital stock (of total authorized $13,000,000, which has been increased from $7,500,000). The company's earnings for the first 10 months of 1919 were more than 45% above those for the entire preceding year.

CUBA CANE—President's Report—According to President Rionda's statement to the shareholders, the corporation saved on marine freights in the first 2 years of its operation, by the contract with Czarnikow-Rioriden Co., $2,600,000. This was the contract providing a 1% commission on sales, since modified. Mr. Rionda further said that the decentralization of management and control of accounting caused by the war and the consequent depletion of the corporation's staff was now much improved. He stated it was hoped to start operations at some of the centrals early in December. He emphasized the fact that early estimates of the crop were fully realized in spite of the railroad strikes and disturbed conditions of labor and that the percentage of sugar paid to the colonos (tenant farmers) continued to diminish as the cane supply in the Eastern plantations increased. The f. o. b. price per pound of sugar manufactured by the company was 5.398c. in 1918-19, against 4.112c. in 1915-16. The cost per pound of producing sugar on an f. o. b. basis was 4.606c. in 1918-19, against 2.748 in 1915-16. Most of this increase was due to the higher cost of cane. The cost of transporting cane to the mills manufacturing the sugars and delivering the sugars to steamer was, per pound, 1.555c. for 1918 against .715c. for 1915-16. The cost of manufacturing for the last crop shows only a 6.8% increase over the previous crop, against an increase of 36% for 1917-18 over 1915-16. The total crop for 1919-20 estimated on the basis of last year's low sucrose in the cane should be 4,700,000 bags, or 671,429 long tons, against 4,-319,189 bags in 1918-19 and 3,613,325 in 1917-18. The above, as well as the recently authorized issue of $2,500,000 mortgage bonds, to reimburse the treasury for improvements, extensions, and additions, will markedly increase the company's annual production.

EMERSON PHONOGRAPH — To Vote on Stock Issue—Directors have called special meeting of stockholders December 15 to vote on authorization of $500,000 8% cum. pfd. stock of which $200,000 is to be issued at present. This entails only $16,000 per annum charge and will supply additional working capital to handle the larger business now coming in and greatly increase production next year.

GENERAL MOTORS CORP.—May Recapitalize—The company plans creation of authorized issue of $500,000,000 of $100 for value 7% cumulative nonvoting debenture stock, redeemable at $120 a share. The present authorized issue of $500,000,000 6% debenture stock is to be decreased to $90,000,000. Provision is to be made for authorized issue of 50,000,000 no par common stock to replace present authorized 5,000,000 shares of $100 par common, 10 shares of new to be given for one old. The holder of each share of present 6% preferred stock and of each share of present 6% debenture stock of record Dec. 31, 1919, will receive a subscription warrant entitling him to subscribe on or before Feb. 2, 1920, to two shares of new 7% debenture stock at par, payment for which may be made in cash or 50% in cash and 50% in preferred, or 6% debenture stock at par. In other words, the holder of each share of preferred stock or 6% debenture stock secures an opportunity to invest $100 on an 8% basis. The above plan, with all the subscription rights taken up, will in accordance with President Durant's statement, under date of Nov. 26, 1919, supply about $85,000,000 additional cash for the corporation treasury, thus enabling it to provide amply for the nominal and safe expansion of the business to develop properly recently acquired and extremely profitable lines and to maintain cash reserves sufficiently large to care for a gross business for the calendar year of approximately $800,-000,000. President Durant also states that the company will absorb no more large plants which have been in whole or in part competing with the General Motors products, but will create new units only where necessary to fill out necessary supply, and then proceed to develop the existing production establishment.

INTERNATIONAL MERCANTILE MARINE CO.—Gets New Liners—According to a high official of the Shipping Board, 4 ex-German passenger liners, Mount Vernon, George Washington, Von Steuben and America, will be alloted to the company for New York to Hamburg passenger line.

REPUBLIC IRON & STEEL—Position Favorable—The company reports continued substantial operating gains and return of former employes.

The Bessemer department is operating at 80% and but for lack of coal its finishing mills at the Brown & Bonnell plant would be started.

SOUTH PORTO RICO SUGAR CO.—Income Account—The annual report of the company for the year ended Sept. 30, 1919, shows surplus after interest, taxes and depreciation of $1,536,428, equal after preferred dividends to $20.28 a share on the $5,602,800 common stock, compared with $18.24 a share in the preceding year. The income account of the company and the subsidiaries for the year ended Sept. 30, 1919, compares:

1919—Gross receipts, $12,866,206; expenses, taxes and interest, $9,739,467; reserves for working capital and depreciation, $1,590,311; dividends, $1,493,974; surplus, $42,454.

UNITED STATES STEEL CORP. — Report — The corporation's strong cash position is reflected in cash holdings of close to $200,000,000. Its total cash, Liberty Bonds, Treasury Certificates, investment securities and time and demand loans total about $460,000,000. The corporation is opening its books for 1920 business at the prices approved at the March, 1919, conference in Washington between the manufacturers and the Industrial Board. The corporation has kept to this schedule since their adoption. Some Governmental business was taken at slightly lower rates. Certain independent producers are asking substantially higher prices and the market is being quoted at these higher levels by some of the leading trade publications. Yet the corporation has no intention of advancing prices unless production costs should make such a procedure unavoidable. The corporation has not been as yet seriously affected by the coal strike. All the miners are non-union and are operated on the 8-hour day basis. It is expected the company will shortly put into effect the 14% increase approved by Fuel Administrator Garfield.

Public Utilities.

BROOKLYN CITY R. R. CO.—Difficulties—Brooklyn street car passengers paid 120,000 extra fares in the two weeks on the Flatbush Avenue line, according to calculations by the Public Service Commission. Counsel Farley, for the Commission, said if the courts decided the extra fares were illegal the company would be liable to penalties aggregating $3,000,000, based on individual damage suits brought by passengers. It was also reported that the barrier which Mayor Hylan had set between the traction companies and the Board of Estimate as regards a discussion on the 5c. fare, was breaking down, and that the two interests might shortly come together and amicably discuss the question.

CENTRAL UNION GAS CO.—Losses Under Present Rate—The company and the Northern Union Gas Co., both in the Bronx, began suits in the Federal Court to have the 80c. gas law declared confiscatory. The complaints are identical and follow the working of a suit brought by the Consolidated Gas Co., now being heard by a referee. According to the complaints, the two companies serve a total of 179,000 consumers. The Central Union Co. states that its property devoted to its gas business was valued at $11,594,146 in 1918, that it lost 32.53c. per thousand ft., a daily loss of $2,489 because of the statutory rate. The company also allege that its earnings below 7% on the minimum valuation of its investments amount to $1,024,660. Figures in the complaint of the Northern Union Co. state that its plant was valued at $4,733,323 in 1918 and that its daily loss was $1,564. Pending trials of the actions, the complainants ask for injunctions restraining the defendants from enforcing the law. The defendants named are the Attorney General, the District Attorney of the Bronx and the Public Service Commission.

CHICAGO ELEVATED RYS. COLL. TRUST—Income Statement—1919—October operating revenue, $1,344,939; operating profit, $328,709; net profit, $90,110. 1917—October operating revenue, $901,894; operating profit, $306,650; net profit, $82,044. We note a net loss in the company's net profit for October, 1919, as compared with the corresponding month of 1917. Comparison is made with the latter year because conditions in 1918 were far from normal, due to the influenza epidemic, which was then at its height. This is an indication of the demoralized traffic conditions in the city. If traffic had remained normal the net profit at the new rate of 8 cents per ride would have been equal to $1,322,300, instead of $90,110 (not taking into consideration the increase in population and the consequent increase of revenue passengers). The outlook is far from bright, in view of the fact that the 8-cents fare may be discontinued after Feb. 1, 1920.

CHICAGO TELEPHONE CO. — Petition Refused—The Illinois Public Utilities Commission has refused the company's petition to restore the Burleson schedule of rates, but permits it to charge for person to person toll call when party asked for is not reached. It has denied the company's application to make $3.50 installation charge, but graduated scale of fees for changes in location of telephones is provided. The commission's order will remain in force until complete valuation of the company's property now in progress has been completed.

CITIES SERVICE CO.—Report—The company's well No. 3, on the Henry lease, in Cotton County, Okla., has been drilled in and is producing 5,000 barrels of oil a day, which means about $4,500,000 additional gross earnings per annum. The company also announces that the regular monthly distribution on the Cities Service bankers' shares, payable Jan. 2 to holders of record Dec. 15, will be 46.1c per share, compared with 51.4c. paid Dec. 1. Distributions for the first 10 months of 1919 total $4.69 a share. Each of the so-called "Bankers'" shares represents one-tenth of one regular share. There are 300,000 non-voting certificates, known as

"Bankers'" share outstanding. Holders of these shares have the right to surrender their holdings and receive one share of common stock for each 10 shares of Bankers' shares deposited.

INDUSTRIAL SERVICE CORPORATION—New Concern—Capitalists of Wilmington, Del., and New York have formed and received a charter for this corporation of Virginia, with a capital of $1,000,000. The main offices will be in Pittsburgh. The objects are to supply power, light and water to industries in the Petersburg-Hopewell district, and in a radius of 50 miles. The corporation's plant will be near Hopewell. Great filtering plants will be distributed along the Appomattox and James Rivers. The corporation is in the hands of local capitalists and the duPont Chemical Co. It is estimated the corporation will take over the munitions plant at Hopewell.

I. R. T.—Income Account—1919—Earnings: October, gross, $4,280,838; net after taxes, $1,396,129; total income, $1,436129; deficit after charges. $218,-762; four months gross, $15,245,106; net after taxes, $4,688,585; total income, $4,863,661; deficit after charges, $1,742,-969. 1918—Earnings: October, gross, $3,299,624; net after taxes, $898,922; total income, $950,454; deficit after charges, $544,626; four months gross, $12,735,248; net after taxes, $3,639,877; total income, $3,816,031; deficit after charges, $1,877,607. There is no marked improvement over last year. The increase in the total income is of no special significance because of the unusually light traffic during the corresponding period of the preceding year, due to the influenza epidemic and because of the opening of new lines of operation during the current year. It is apparent that with the recent wage increase of 25%, the high cost of materials and the continuance of the 5-cent fare the earnings will not be sufficient to meet the existing fixed charges against the company. President Hedley of the company said a conference of the parties interested in the subway's finances will be held shortly and some plan envolved whereby the company will secure $5,000,000 it needs to tide it over to Jan. 1.

PETROLEUM, HEAT & POWER CO.—New Concern—The capital of the new company will be $2,000,000 7% cumulative preferred and 260,000 shares of common of no par value. Associated with Boston interests is a group of New York capitalists, E. L. Doheny, Gen. Coleman duPont, W. C. Durant, Dr. John A. Harris, Louis G. Kaufmann and others. A most important feature is the assurance of a constant supply of fuel oil which it has obtained by contract with the Mexican Petroleum Co., to Dec. 31, 1930.

PUBLIC SERVICE CORP. OF N. J.—Rates of Fare Changed—The Public Utilities Commission of New Jersey has permitted the company to abandon the present zone system of fares and restore the old 7c. flat rate, with 1c. for a transfer, effective Dec. 7. Commissioner Wright dissented from the majority opinion.

UNITED GAS & ELECTRIC CORP.—Subsidiaries' Earnings — 1919 —**Earnings:** October, gross, $1,698,122; net after taxes, $450,179; surplus after charges, $177,587; annual gross, $19,-253,582; net after taxes, $4,748,513; sur-

plus after charges, $1,633,536. 1918—Earnings: October, gross, $929,669; net after taxes, $190,718; surplus after charges, $74,146; annual gross, $16,211,-338; net after taxes, $4,433,123; surplus after charges, $1,270,025. After interest on United Gas & Electric bonded indebtedness balance applicable to the stock is $481,425.

Mining Notes

AMERICAN SMELTING & REFINING CO.—Report and Outlook— By maintaining dividends not earned the company has been drawing heavily on its surplus. Substantial sales during the past few weeks caused a drop in the price of copper from above 23 cents a pound to 18 cents. With the growing demand, the improvement of the labor situation, the outlook for the future is very favorable.

AMERICAN ZINC, LEAD & SMELTING CO.—Better Outlook— The gradual improvement in the zinc markets is reflected in the operations of the company. In October a considerable profit was realized, and with demand showing further improvement the net earnings for the year will be fairly satisfactory. Current quotations of 8.10c. per pound permit a profit, but better yet is the sign of sustained demand. The company's splendid treasury position of over $5,000,000 in cash and negotiable securities is still intact.

ANACONDA COPPER MINING CO.—Suffers From Fuel Shortage— Seizure by the Union Pacific R. R. of coal consigned to the company has brought about a shortage in the fuel supplies and operations will be seriously handicapped in a week at the Anaconda and Great Falls smelter without more coal. Curtailment of railroad traffic also is threatened by the coal shortage, and this is restricting production. The situation was placed before officials of the U. P. and it is believed that relief will be had shortly.

ACME COAL MINING CO.—Seeks New Interests— The company, which controls 40% of the Pearson Coal Mining Co., and is negotiating for the other 60%, also has opened negotiations for the acquisition of two additional mines in Clearfield and Houtzdale, Pa. These transactions ought to increase the earning capacity of the company considerably. The shares of the company, which has been organized with a capital of $1,000,000 (par value $1), are traded in quite actively on the New York Curb.

BUTTE & SUPERIOR MINING CO.—Good Outlook— The annual output of silver for 1919 will equal about 3,978,000 ounces, which means $5,171,-400 in annual gross earnings on silver alone, figured at the present price of silver around $1.30. This compares very favorably with last year's total gross earnings of $5,915,244, which was equivalent to $2.16 a share on the company's outstanding stock of $10 par value. If we consider that the company produces also other non-ferrous metals, the earnings for the coming year ought to exceed considerably those for the preceding year.

MIAMI COPPER CO. — Minerals Separation Suit—A supplemental plan in the United States District Court at Wilmington, Del., has been filed by Mineral Separation, Ltd., against the company, asking a preliminary injunction restraining the latter from alleged continued infringement on the former's fourth flotation process. Decision is expected in two weeks. The company's total production of copper for October, 1919, was equal to 4,898,113 pounds, against 4,139,103 for the preceding month.

NEW JERSEY ZINC CO.—An extra dividend has been declared by the company, payable Dec. 10, to holders of record Nov. 29. This is no doubt a direct result of the comparatively remarkable strength shown by the zinc market during the conflicting developments in the non-ferrous metal markets. After a relapse to 7.75c., zinc sold at slightly above 8c. This is chiefly due to the fact that producers have not been selling freely, that inquiries continued light from galvanizers and brass mills, and that inquiries from abroad were so numerous that it became quite difficult to fill them.

SILVER KING OF ARIZONA—Report—The company reports under date of Dec. 1 the completion of a crosscut at 415 ft., and the planned addition of another one at 600 ft. New ore at 400 ft. shows upwards 17 ounces silver to ton and shipping ore, same level, upwards 200 ounces per ton; 365 tons taken from this level in 1918 netted $46.983. Because of the water level extraction of this ore body was discontinued, but the new shafts make the latter again available on Nov. 24. Shipments of about $40,000 of concentrates were made. At the annual meeting, to be held Jan. 13, the stockholders will vote on changing the par value of the stock from $1 to $5.

Oil Notes

ASSOCIATED OIL CO.—Increases Dividend—The company has declared a quarterly dividend of $1.50 a share, payable Jan. 15 to holders of record Dec. 26, placing the stock on a 6% annual basis, compared with 5% heretofore. The company was incorporated in 1901 under the law of the State of California and is a strong financial organization. It has been paying regular 5% dividends since 1917. Earnings for the first nine months of the year are higher than those for the corresponding period in 1918.

CARIB SYNDICATE, LTD.—Recapitalization Ratified—Stockholders of the company at a special meeting ratified the recapitalization plan calling for an increase in the stock from 4,000 shares, par $25, to 800,000 shares. The plan provides for the subdivision o each share into 100 sub-shares. The company was organized in 1915 with an outstanding capital stock of $87,500 of an authorized issue of $100,000, the par value being $25 per share. From time to time, as the company needed money rights were issued pro rata to stockholders to buy treasury stock, first

at $100 per share, then at $250, next at $400 and later at $500, until $75,000 of stock or 3,000 of the $25 par value shares were outstanding. On April 15 the company announced a further increase of capital of 300 shares to the stockholders at $1,000 per share. On October 10, 1919, the Board of Directors voted to offer 438 shares of the capital stock to the shareholders of record as of noon, October 17, 1919, at $,2000 per share. Within a short time (probably before the end of the yea· the now outstanding stock will be split up into 100 shares each. The company owns and operates the highly valuable Barco property, which has been purchased at $100,000, but the value of which has since risen tremendously, the Colon well, which has a daily capacity of 2,500 barrels, and the Columbia Petroleum Oil Co., of which company Carib holds 23½% of the total capital stock, which is jointly owned by the Doherty interest and Carib Syndicate, and which has a daily capacity of about 4,000 barrels. The company is operating very extensively and expects to commence drilling on a more substantial scale at San Felope and Honda, difficulties imposed by the Colombia and Venezuelan Governments having been adjusted. The company can readily compete with the new fields in Texas, since the principal production will come from depths less than 2,000 feet and from lands situated at distances from tide water of less than 200 miles, and also with those in Mexico, because the oil in the latter county is of inferior quality and subject to excessive taxation, and finally because oil ports in both Texas and Mexico are farther away from the Atlantic coast refineries than the Columbian port of Cartagena. The production of the company at the present time is reported to be more than 5,000 barrels a day or the limits of the available refinery capacity, but a far greater production is believed to be obtainable and doubtless will be reported as soon as additional refinery facilities are provided. The figure of 5,000 barrels daily would yield annual gross earnings of about $6,375,000 (on the basis of $4.25 per barrel).

GILLILAND OIL O., INC.—New Issue—A striking instance of the truth of statements printed in the Nov. 29 issue of the Magazine in regard to the fact that the oil situation is now undergoing a change for the better, and that prominent industrial and banking executives are beginning to take a hand, is the report that Knauth, Nachod & Kuhne, Hallgarten & Co. and Dominick & Dominick have formed a syndicate to underwrite the purchase of 50,000 shares of 8% cumulative convertible pref. stock of the company, incorporated under the laws of Delaware, which took over the holdings of J. W. Gilliland and the Southwest Oil Co. of Oklahoma.

MARLAND REFINING CO.—New Construction—The company plans to spend $2 000,000 in enlarging its 5000-barrel refinery at Ponca City, Okla. A cracking process and new lubricating plant will enable the company to manufacture all products of petroleum. It is expected that the tank farm now under construction will have a capacity of 695,000 barrels by Spring of 1920. The stock of the company which is pretty strongly financed is traded in actively on the N. Y. Curb and is listed on the Pittsburgh Stock Exchange. The company has paid dividends on stock as follows: May 31, 1918, 40%; July 31, 1918, 10%; Dec. 31, 1918, 10%; July 15, 1919, 25%. Current gross earnings are over $500,000 a month.

PRAIRIE OIL & GAS CO.—Purchases New Pipe Line—The company has acquired from the Ryan Petroleum Corporation its new pipe line, extending from the Burke-Waggoner field and connecting with the main pipe line of the Prairie Oil & Gas Co. A contract has been entered into between the company and the Ryan Pet. Co., under which the entire output of the latter is to be purchased at mid-continent posted prices.

ROYAL DUTCH CO.—The British Chancellor of Exchequer announces Royal Dutch Co. shares commandeered by the Government during the war will be released before formal declaration of peace and trading allowed in London markets. The company's output of crude oil will be increased considerably owing to the commencement of operations on a large scale in Roumania, where the company controls and operates the largest oil fields.

SINCLAIR CONSOLIDATED OIL CORP.—Extension and Additions—The corporation's drilling operations in Kansas, Oklahoma, Texas, and Louisiana continue to show good results. Recent wells brought in include several large ones. In Butler County, Kan., the Furman No. 4 is making 1,000 barrels. In the Garber field, Okla., 6 of Sinclair's recent completions ranged from 150 to 400 barrels of high gravity oil daily. The Danley No. 5, at 1,100 barrels, is the most recent completion. In Stephens County, Lee No. 1 has come in at 500 barrels, and Satterfield No. 2 at 900. In the Duke pool, their Thornton No. 2 was at 600 barrels. In Louisiana, the corporation brought in a 2,000-barrel well, the Nelson A-1. Prior to the addition the company's net profit for the year considerably exceeded that of last year.

SKELLY OIL CO.—Purchases New Fields—The company announces the purchase of 12,460 acres in the Homer and Bull Bayou oil fields of Louisiana, which will increase its production considerably.

STANDARD OIL CO. OF N. J.—Roumanian Business—The company has purchased 500,000 barrels of refined and crude oil from several companies operating in the Roumanian oil fields, delivery to be made by Feb. 29, 1920. The value of the oil is given as $3,150,000. The principal companies, Astia and Steana Romana, are producing about 300,000 barrels of oil a month or half of the oil being brought to the surface in the Roumanian fields. The company is well equipped with tank steamers, and will be able to provide ample facilities for handling the oil. The Roumanian oil fields are not nearly back to normal. Production is now 8,000,000 barrels a year against 21,500,000 in 1913.

Practical Reminders for the Bank Depositor

Simple Precautions That Are Often Overlooked or Forgotten

THE fact that banks are indispensable institutions is so well known that it may be considered axiomatic. But many persons who readily grant this much have a hazy idea as to the details of the conduct of banks and an imperfect understanding of the ways in which their dealings with such institutions should be handled. As a result, relations between the banker and those who avail themselves of his services are often not as satisfactory as they should be, and perplexities, delays and losses result.

Your banker should be more than a business acquaintance. He should be your intimate financial adviser and a true "guide, philosopher and friend." It is highly important that the choice of a bank be carefully considered—especially by a business man. It is obvious that something more than convenience of location should influence the selection. Perhaps the factors which should be given the greatest weight, are the character and ability of the official personnel.

Be Straightforward

When business relations are established between customer and banker, the former will find that it pays to be frank and straightforward. Since it is to the interest of the bank to help its customers build up their business, it will pay to tell bank officials the whole truth about financial affairs. These relations are based on mutual confidence and if the banker discovers that he has been deceived in any instance he is forced into a position where he must view all of your statements with suspicion.

As unnecessary a caution as it may appear, a warning regarding the manner in which checks are signed must frequently be given to a bank's depositors. A man whose name appears in the bank records as John A. Smith, for example, should not make the mistake of signing his checks with the name, J. A. Smith. A bank takes an unreasonable risk in paying out money on a check bearing any name other than the exact one under which the account is deposited and if it plays safe in such a case the depositor has no just complaint. The best thing to do is to write your name naturally, just as you are in the habit of signing it, when you are asked for your name and address at the time the account is opened.

An elementary rule which is commonly overlooked by many business firms having extensive dealings with banks, as well as by individuals, is that every check should be indorsed exactly as it is made payable on its face. Every check which you wish to collect should be indorsed before it is presented to the paying teller, even if it is payable to "Cash" or "Bearer."

It is important, too, for you to draw checks properly. The figures should be placed close to the dollar sign. Begin close to the left-hand margin in writing out the amount of the check, and when this is written, draw a line in the blank space left between the amount and the word "dollars."

These precautions will partially safeguard your checks against alteration. Above all, do not write checks with a lead pencil. The fact that such checks might easily be changed if they passed through the hands of dishonest persons is patent.

Don't Alter Check

If you make a mistake in writing a check, destroy it and make out a new one instead of erasing it or altering the amount or the name. A bank cannot be blamed if it shows some hesitancy about paying out cash on such a doubtful order. If a mistake were made and the bank paid the wrong person or the wrong amount it would suffer the loss. Accordingly, the tellers are always on the look-out for raised or altered checks. Legal instruments which are altered in any material way are often held to be void by the courts.

In depositing money, always make out your own deposit ticket, listing your money separately as gold and silver. When checks are deposited, there should be written against each amount the name of the bank drawn on, and the town. All of the various amounts should be added up before the slip is handed to the teller. Indistinct or illegible figures on deposit tickets frequently lead to mistakes, so you should make them as plain as possible. Another source of confusion is the failure of customers to head deposit tickets with their names exactly as they wrote them out in opening accounts. As a result, deposits are sometimes credited to the wrong person.

Everyone knows how to indorse a check. All that is necessary is to write your name on the back, on the left end. But when a check is undoubtedly intended for you, although your name is not stated correctly on its face, you may be at a loss as to how to proceed. In such a case, indorse a check exactly as it is made payable, and then beneath that indorsement indorse it as you ordinarily would.

Careful persons keep records of those from whom they receive checks or for whom they indorse them. Some retail firms, it is true, cash checks for customers and later deposit them for collection without keeping any record of the sources from which they get them. But if such a check were lost in the mails, for instance, and the bank called on the merchant for a duplicate it would be an excuse to say that he had no record of the person from whom he obtained it.

IMPORTANT DIVIDEND ANNOUNCEMENTS

To obtain a dividend direcly from a company, the stock must be transferred into the owner's name before the date of the closing of the company's books.

Ann. Rate	Name	Amount Declared	Paid to Holders as of	Payable
7%	Am Hide & Leather, p.	1¾%Q	12-13	1- 2
$6	Amer Int'l Corp, p...	$1.50 Q	12-16	12-31
$6	Amer Int'l Corp, c..	$1.50 Q	12-16	12-31
7%	Amer Linseed, p.....	1¾%Q	12-15	1 - 2
7%	Amer Locomotive, p.	1¾%Q	12-13	12-31
4%	Amer Smelt & Refin, c.	1 %Q	11-28	12-15
6%	Amer Smelt Sec, p A.	1½%Q	12-12	1- 2
5%	Amer Smelt Sec, p B.	1¼%Q	12-12	1- 2
6%	Amer Snuff, p........	1½%Q	12-13	1- 2
8%	Amer Snuff, c........	2 %Q	12-13	1- 2
7%	Amer Sugar Refin, p.	1¾%Q	12-1	1- 2
7%	Amer Sucar Refin, c.	1¾%Q	12-1	1- 2
....	Amer Sugar Ref, c ext.	¾%	12-1	1- 2
8%	Amer Tel & Tel......	2 %Q	12-20	1-15
6%	Amer Tobacco, p....	1½%Q	12-13	1- 2
6%	Associated Oil.........	1½%Q	12-26	1-15
7%	Atlantic Cst L R R, c.	3½%S	12-19	1-10
20%	Atlantic Refining.....	5 %Q	11-24	12-15
7%	Atlantic Sugar Ref, p.	1¾%Q	12-12	1- 2
....	Atlan Su Ref, p ext m.	1¾	12-12	1- 2
7%	Baldwin Loco, p......	3½%S	12-6	1- 1
7%	Baldwin Loco, c.......	3½%S	12-6	1- 1
8%	Beth Steel, 8% p.....	2 %Q	12-15	1- 2
7%	Beth Steel, 7% p.....	1¾%Q	12-15	1- 2
5%	Beth Steel, c A.......	1¼%Q	12-15	1- 2
5%	Beth Steel, c B.......	1¼%Q	12-15	1- 2
$8	Buckeye Pipe Line....	$2 Q	11-22	12-15
$7	California Packing, p.	$1.75 Q	12-15	1- 2
$4	California Packing, c.	$1 Q	11-29	12-15
$2	Calumet & Arizona...	50c Q	12-5	12-22
$20	Calumet & Hecla.....	$5 Q	12-6	12-31
$3	Cambria Steel	75c Q	11-29	12-15
....	Cambria Steel, ext....	25c	11-29	12-15
7%	Central Leather, p...	1¾%Q	12-10	1- 2
8%	Chandler Motor......	a2 %Q	12-15	1- 2
4%	Ches & Ohio..........	ss2 %S	12-5	12-31
$3	Chino Copper..........	75c Q	12-12	12-31
....	Cities S, c bkrs sh.	gg46.1c	12-15	1- 2
4%	Comput-Tab-Record ..	1 %Q	12-24	1-10
7%	Consolidated Gas......	1¾%Q	11-12	12-15
7%	Continental Can, p...	1¾%Q	12-20	1- 1
7%	Continental Can, c....	1¾%Q	12-20	1- 1
$2	Copper Range.........	50c Q	11-20	12-15
$3	Crescent Pipe Line....	75c Q	11-22	12-15
6%	Crex Carpet............	3 %S	11-28	12-15
7%	Crucible Steel, p......	1¾%Q	12-8	12-22
....	Cumberland Pipe L..	$12	12-1	12-15
9%	Del & Hudson.......	ss2¼%Q	11-26	12-20
8%	Diamond Match........	2 %Q	11-29	12-15
2%	Federal Min & S, p..	½%Q	11-25	12-15
7%	Fisk Rubber, 2d p....	1¾%Q	12-1	12-15
8%	Galena Sig Oil, orig p.	2 %Q	11-29	12-31
8%	Balena Sig Oil new p.	2 %Q	11-29	12-31
6%	General Chemical, p..	1½%Q	12-19	1- 2
7%	General Cigar, p deb.	1¾%Q	12-24	1- 2
8%	General Electric	2 %Q	12-3	1-15
....	General 5lectric, ext.	x2 %	12-6	1-15
7%	Goodrich (B F), p...	1¾%Q	12-20	1- 1
7%	Gulf States Steel, 1st p.	1¾%Q	12-15	1- 2
6%	Gulf States Steel, 2d p.	1½%Q	12-15	1- 2
4%	Hocking Valley........	2 %S	12-12	12-31
6%	Kelly Springf Tire, p.	1½%Q	12-15	1- 2
$1	Kennecott Copper	25c Q	12-5	12-31
....	Kennecott Cop, ext.	dd25c	12-5	12-31
12%	Keystone Tire & R, c.	3 %Q	12-15	1-2
$5	Kresge (S S), c......	$2.50 S	12-16	1- 1
6%	Lackawanna Steel, c..	1½%Q	12-10	12-31
5%	Laclede Gas Light, p.	2½%S	12-1	12-15
$5	Lehigh Val R R, p.	ss$1.25 Q	12-13	1- 3
$3.50	Lehigh Val R R, c.	ss87½cQ	12-13	1- 3
7%	Manhat Elec S, 1st p.	1¾%Q	12-20	1-2
7%	Manhat Elec S, 2d p..	1¾%Q	12-20	1- 2
4%	Manhat Elec Sup, c..	1 %Q	12-20	1- 2
....	Marconi Wireless	25c	12-10	1- 2
7%	May Dept Stores, p...	1¾%Q	12-15	1- 2
12c	McKinley Dar-Sav...	3c Q	12-6	1- 1
8%	Mexican Petrol, p.....	2 %Q	12-13	1- 2
10%	Mexican Petrol, c.....	2½%Q	12-13	1-10
$1.20	Middle States Oil....	10c M	12-20	1- 2
7%	National Biscuit, c...	1¾%Q	12-30	1-15
7%	Nat'l Enam & S, p...	1¾%Q	12-11	12-31
7%	National Lead, p.........	1¾Q	11-21	12-15
5%	National Lead, c.......	1¼%Q	12-12	12-31
7%	National Sugar Refin.	1¾%Q	12- 8	1- 2
$1	National Transit	50c S	11-29	12-15
....	National Transit, ext.	$1.50	11-29	12-15
$1.50	Nevada Cons Copper..	37½Q	12-12	12-31
10%	N Y Air Brake.......	2½%Q	12- 2	12-19
....	New York Tran, ext..	$4	12-20	1 -15
8%	Niles-Bement-Pond, c.	2 %Q	12- 1	12-20
7%	Norfolk & West, c.	ss1¾%Q	11-29	12-19
5%	North Amer Co.......	1¼%Q	12-15	12- 2
$10	Northern Pipe Line...	$5 S	12-13	1 - 2
F5%	Ohio Cities Gas, p....	1¼%Q	12-15	1 - 1
$5	Ohio Oil	$1.25Q	11-29	12-31
....	Ohio Oil, ext...........	$4.75	11-29	12-31
50c	Oklahoma Prod & R.	12½cQ	12-26	1 - 6
6%	Otis Elevator, p......	1½%Q	12-31	1 -15
5%	Otis Elevator, c.......	1¼%Q	12-31	1 -15
7%	Pan Amer Pet & Tr, p.	1¾%Q	12-13	1 - 2
12%	Pan Amer Pet & Tr, c.	3 %Q	12-13	1 -10
8%	Pierce Arrow Motor, p.	2 %Q	12-15	1 - 1
$2	Ray Con Copper......	50c Q	12-12	12-31
$1	Reo Motor	25c Q	12-15	1 - 1

Ann. Rate	Name	Dividend Declared	Paid to Holders as of	Payable
7%	Republic Ir & St, p..	1¾%Q	12-15	1 - 2
$1	St Joseph Lead........	25c Q	12- 9	12-20
$10	Solar Refining	$5 S	11-29	12-20
....	Solar Refining, ext....	$15	11-29	12-20
6%	Southern Pacific	ss1½%Q	11-29	1 - 2
$20	South Penn Oil........	$5 Q	12-12	12-31
8%	So Porto Rico S, p...	2 %Q	12-10	12-31
20%	So Porto Rico S, c...	5 %Q	12-10	12-31
$12	So'west Penn P L....	$3 Q	12-15	12-31
8%	Standard Gas & E, p.	2 %Q	11-30	12-15
10%	Standard Oil of Cal..	2½%Q	11-15	12-15
....	Standard Oil of C,ext.	1 %	11-15	12-15
12%	Standard Oil of Ind..	3 %Q	11-17	12-15
....	Standard Oil of I,ext.	3 %	11-17	12-15
12%	Standard Oil of aKn..	3 %Q	11-29	12-15
....	Stand Oil of Kan, ext.	3 %	11-29	12-15
$12	Stand Oil of Ken.....	$3 Q	12-15	1 - 2
20%	Standard Oil of Neb..	10 %S	11-20	12-20
....	Stand Oil of N J, p.	a1¾%Q	11-20	12-15
20%	Stand Oil of N J, c..	5 %Q	11-20	12-15
16%	Standard Oil of N Y.	4 %Q	11-21	12-15
$12	Stand Oil of Ohio....	$3 Q	11-28	1 - 2
....	Stand Oil of Ohio, ext.	$1	11-28	1 - 2
$4	Stromberg Carbureter.	$1 Q	12-16	1 - 2
8%	Swift & Co.............	2 %Q	12-10	1 - 1
8%	Union Bag & Paper..	2 %Q	12- 5	12-15
10%	Union Pacific, c....	ss2½%Q	12- 1	1 - 2
6%	Union Tank Car......	1½%Q	12- 1	12-24
$3	Union Traction	$1.50 S	12-10	1 - 1
$8	U S Ind Alcohol, c...	$2 Q	12- 1	12-15
5%	U S Steel, c............	1¼%Q	12- 1	12-30
$1	Utah Cons M'in.......	25c Q	12-17	12-24
$6	Utah Copper	$1.50Q	12-12	12-31
7%	Weyman-Bruton, p....	1¾%Q	12-15	1 - 1
10%	Weyman-Bruton, c...	2½%Q	12-15	1 - 1
$4	White Motor	$1 Q	12-15	12-31
7%	Willys-Overland, p....	1¾%Q	12-22	1 - 1
$2	Wolverine Cop Mine..	50c Q	12- 6	1 - 2
7%	Woolworth (F W), p.	1¾%Q	12-10	1 - 2
7%	Yorth P & M, p A..	1¾%Q	12-20	1 - 1
6%	Worth P & M, p B..	1½%Q	12-20	1 - 1
10%	Yale & Towne..........	2½%Q	12-15	1 - 2

a—Initial dividend.
dd—Capital distribution.
f—Payable 1¼% each Jan., July and Oct., and 1½% in April.
gg—Includes regular monthly ½% cash dividends and cash proceeds from sale of stock dividends due on Bankers Shares.
j—Payable 2% each March and Sept., 2½% in June and 2¼% in December.
m—On account of accumulated dividends.
ss—Subject to the approval of the Director General of Railroads. N. Y. Stock Exchange ruled stock does not sell ex-div. on stock of record date.
xx—Payable in Liberty Loan bonds.

DIVIDEND NOTICES

AMERICAN WOOLEN COMPANY

(Massachusetts Corporation)

QUARTERLY DIVIDENDS

Notice is hereby given that the regular quarterly dividends of One Dollar and Seventy-Five Cents ($1.75) per share on the Preferred Stock and One Dollar and Seventy-Five Cents ($1.75) per share on the Common Stock of this Company will be paid on Jan. 15, 1920, to stockholders of record Dec. 16, 1919.

Transfer books will be closed at the close of business Dec. 16, 1919, and will be reopened at the opening of business Dec. 30, 1919.

WM. H. DWELLY, Treasurer.

Boston, Mass., Dec. 5, 1919.

United Drug Company

Common Stock Dividend No. 13

The Directors of United Drug Co. have declared a quarterly dividend of 1¾% on the common stock of United Drug Co. payable January 2nd, 1920, to stockholders of record December 15th, 1919.

JAMES C. McCORMICK, Treasurer.

Boston, November 28, 1919.

AMERICAN TELEPHONE AND TELEGRAPH COMPANY

A dividend of Two Dollars per share will be paid on Thursday, January 15, 1920, to stockholders of record at the close of business on Saturday, December 20, 1919.

G. D. MILNE, Treasurer.